



**First Global Bank Limited**

**Financial Statements  
31 December 2018**

# First Global Bank Limited

Index

31 December 2018

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## **Independent auditor's report**

*To the members of First Global Bank Limited*

### **Report on the audit of the financial statements**

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#### **Our opinion**

In our opinion, the financial statements give a true and fair view of the financial position of First Global Bank Limited (the Bank) as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act.

#### ***What we have audited***

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Independence***

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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#### **Responsibilities of management for the financial statements**

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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L.A. McKnight P.E. Williams A.K. Jain B.L. Scott, B.J. Denning G.A. Reece P.A. Williams R.S. Nathan C.I. Beil-Wisdom G.K. Moore



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### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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**Report on Other Legal and Regulatory Requirements**

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

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*PricewaterhouseCoopers*

*Chartered Accountants*

*29 March 2019*

*Kingston, Jamaica*

# First Global Bank Limited

## Statement of Financial Position

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2018 \$'000	2017 \$'000
<b>ASSETS</b>			
Cash and bank balances	5	7,423,264	7,070,570
Items in the course of collection from other banks		124,050	141,661
Securities purchased under resale agreements	6	-	264,784
Loans and advances, net of provision for credit losses	7	25,456,005	26,480,577
Investment securities	8	10,462,537	12,883,824
Pledged assets	8	9,931,362	4,927,305
Property, plant and equipment	9	663,516	756,132
Intangible assets	10	169,368	267,132
Deferred income tax assets	11	606,875	274,262
Taxation recoverable		72,556	72,556
Other assets	12	416,750	831,756
Guarantees, letters of credit and letters of undertaking, net of provision for credit losses	3(a)	218,120	515,569
<b>Total Assets</b>		<u>55,544,403</u>	<u>54,486,128</u>

# First Global Bank Limited


Statement of Financial Position (Continued)


31 December 2018

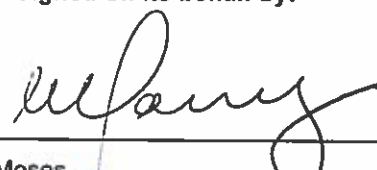
(expressed in Jamaican dollars unless otherwise indicated)

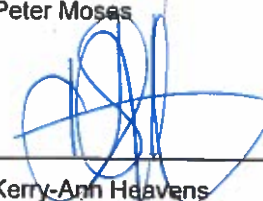
	Note	2018 \$'000	2017 \$'000
<b>LIABILITIES</b>			
Customer deposits	13	37,656,711	36,715,996
Items in the course of payment		111,416	109,382
Due to other banks		499,902	2,251,971
Securities sold under repurchase agreements		7,208,337	3,792,720
Short term loans	14	253,628	1,171,559
Other borrowed funds	15	1,195,458	1,126,169
Post-employment benefit obligations	16	383,054	306,239
Other liabilities	17	647,054	684,980
Guarantees, letters of credit and letters of undertaking		230,628	515,569
<b>Total Liabilities</b>		<b>48,186,188</b>	<b>46,674,585</b>
<b>EQUITY</b>			
Share capital	18	3,564,181	3,564,181
Statutory reserve fund	19	1,226,081	1,149,481
Fair value reserve	20	(78,593)	128,940
Loan loss reserve	21	556,032	628,271
Retained earnings reserve	22	1,894,630	1,894,630
Stock option reserve		14,871	10,353
Retained earnings		181,013	435,687
<b>Total Equity</b>		<b>7,358,215</b>	<b>7,811,543</b>
<b>Total Liabilities and Equity</b>		<b>55,544,403</b>	<b>54,486,128</b>

Approved for issue by the Board of Directors on 28 March 2019 and signed on its behalf by:

  
 \_\_\_\_\_  
 Joseph Taffe Director

  
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 Mariame McIntosh Robinson Director

  
 \_\_\_\_\_  
 Peter Moses Director

  
 \_\_\_\_\_  
 Kerry-Ann Heavens Secretary

# First Global Bank Limited

## Statement of Comprehensive Income

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2018 \$'000	2017 \$'000
<b>Interest Income –</b>			
Loans		2,796,941	2,931,697
Securities	23	952,341	1,148,361
Other		80,287	59,272
		<u>3,829,569</u>	<u>4,139,330</u>
<b>Interest Expense –</b>			
Customer deposits		(527,875)	(578,112)
Securities sold under repurchase agreements		(179,348)	(386,451)
Other		(74,776)	(82,619)
		<u>(781,999)</u>	<u>(1,047,182)</u>
<b>Net Interest Income</b>		3,047,570	3,092,148
<b>Credit Impairment Losses, Net</b>	3(a)	<u>(156,957)</u>	<u>(107,454)</u>
		2,890,613	2,984,694
<b>Other Income –</b>			
Fees and commissions, net	3(a), 24	888,431	1,066,781
Gains on foreign exchange translation and trading		438,481	293,087
Gains on investing activities, net	25	122,904	175,402
Other		17,000	11,895
		<u>1,466,816</u>	<u>1,547,165</u>
<b>Net Interest and Other Income</b>		4,357,429	4,531,859
<b>Operating Expenses –</b>			
Staff costs	26	(1,720,133)	(1,835,836)
Amortisation and depreciation		(308,381)	(294,194)
Administration and other expenses	27	(1,796,415)	(1,868,384)
		<u>(3,824,929)</u>	<u>(3,998,414)</u>
<b>Profit before Taxation</b>		532,500	533,445
Taxation	28	<u>(21,833)</u>	<u>(64,959)</u>
<b>Net Profit</b>		<u>510,667</u>	<u>468,486</u>



# First Global Bank Limited

## Statement of Comprehensive Income (Continued)

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	2018 \$'000	2017 \$'000
<b>Net Profit (brought forward from page 3)</b>	<u>510,667</u>	<u>468,486</u>
<b>Other Comprehensive Income –</b>		
<b>Items that may be subsequently reclassified to profit or loss:</b>		
Realised gains on available-for-sale investments, net of taxes	-	(139,615)
Unrealised gains on available-for-sale investments, net of taxes	-	201,450
Realised gains on investments measured at fair value through other comprehensive income, net of taxes	(97,408)	-
Unrealised losses on investments measured at fair value through other comprehensive income, net of taxes	(182,166)	-
<b>Item that will not be reclassified to profit or loss:</b>		
Re-measurements of post- employment benefit obligations, net of taxes	(51,205)	4,912
	<u>(330,779)</u>	<u>66,747</u>
<b>TOTAL COMPREHENSIVE INCOME</b>	<u><u>179,888</u></u>	<u><u>535,233</u></u>

# First Global Bank Limited

## Statement of Changes in Equity

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital \$'000	Statutory Reserve Fund \$'000	Fair Value Reserve \$'000	Loan Loss Reserve \$'000	Retained Earnings Reserve \$'000	Stock Option Reserve \$'000	Retained Earnings \$'000	Total \$'000
<b>Balance at 31 December 2016</b>	3,564,181	1,077,579	67,105	620,016	1,694,630	7,857	494,600	7,525,968
Total comprehensive income	-	-	61,835	-	-	-	473,398	535,233
Total transactions with equity holders - Ordinary and Preference dividends paid	-	-	-	-	-	-	(252,154)	(252,154)
Transfer to loan loss reserve	-	-	-	8,255	-	-	(8,255)	-
Employee share option scheme - value of services received	-	-	-	-	-	2,496	-	2,496
Transfer to retained earnings reserve	-	-	-	-	200,000	-	(200,000)	-
Transfer to statutory reserve fund	-	71,902	-	-	-	-	(71,902)	-
<b>Balance at 31 December 2017</b>	3,564,181	1,149,481	128,940	628,271	1,894,630	10,353	435,687	7,811,543
Change on initial application of new standards (see note 34)	-	-	72,041	(387,459)	-	-	(149,734)	(456,152)
Restated balance at 1 January 2018	3,564,181	1,149,481	200,981	240,812	1,894,630	10,353	285,953	7,346,391
Total comprehensive income	-	-	(279,574)	-	-	-	459,462	179,888
Total transactions with equity holders - Ordinary and Preference dividends paid	-	-	-	-	-	-	(172,582)	(172,582)
Transfer to loan loss reserve	-	-	-	315,220	-	-	(315,220)	-
Employee share option scheme - value of services received	-	-	-	-	-	4,518	-	4,518
Transfer to statutory reserve fund	-	76,600	-	-	-	-	(76,600)	-
<b>Balance at 31 December 2018</b>	3,564,181	1,226,081	(78,593)	556,032	1,894,630	14,871	181,013	7,358,215

# First Global Bank Limited

## Statement of Cash Flows

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2018 \$'000	2017 \$'000
<b>Cash Flows from Operating Activities</b>			
Net profit for the year		510,667	468,486
Adjustments to reconcile profit for the year to net cash used in operating activities –			
Depreciation	9	159,092	135,752
Amortisation	10	149,289	158,442
Foreign exchange (gains)/losses		(122,543)	963,336
Gains on disposal of property, plant and equipment		-	21,614
Gains on investment activities	25	(122,904)	(175,402)
Employee stock option		4,518	2,496
Provision for credit losses, net	3(a)	156,957	107,454
Interest income		(3,829,569)	(4,139,330)
Interest expense		781,999	1,047,182
Taxation	28	21,833	64,959
		<u>(2,290,661)</u>	<u>(1,345,011)</u>
Changes in other operating assets and liabilities –			
Customer deposits		975,287	2,326,552
Loans		389,129	(1,761,175)
Securities sold under repurchase agreements		3,410,264	(8,520,330)
Restricted cash and bank accounts		242,097	(1,204,127)
Post-employment benefits		7	64,303
Other assets		415,006	(514,912)
Other liabilities		<u>(108,920)</u>	<u>(67,072)</u>
Cash generated from /(used in) operations		3,032,209	(11,021,772)
Interest received		3,900,431	4,136,226
Interest paid		(811,101)	(1,057,615)
Taxation paid		<u>(50,061)</u>	<u>(59)</u>
Net cash provided by/(used in) operating activities (carried forward to page 7)		<u>6,071,478</u>	<u>(7,943,220)</u>

# First Global Bank Limited

## Statement of Cash Flows (Continued)

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2018 \$'000	2017 \$'000
<b>Cash Flows from Operating Activities</b> (brought forward from page 6)		<u>6,071,478</u>	<u>(7,943,220)</u>
<b>Cash Flows from Investing Activities</b>			
Purchase of investment securities		(7,966,365)	(4,928,247)
Disposal of investment securities		5,128,749	9,460,997
Proceeds on disposal of property, plant and equipment		-	5,151
Acquisition of property, plant and equipment	9	(80,689)	(220,411)
Acquisition of intangible assets	10	<u>(37,312)</u>	<u>(30,618)</u>
Net cash (used in)/provided by investing activities		<u>(2,955,617)</u>	<u>4,286,872</u>
<b>Cash Flows from Financing Activities</b>			
Repayment of other borrowed funds		(607,540)	(343,717)
Proceeds from other borrowed funds		672,669	176,663
Repayment of short-term loan		-	(255,921)
Ordinary and preference dividends paid		<u>(172,582)</u>	<u>(252,154)</u>
Net cash used in by financing activities		<u>(107,452)</u>	<u>(675,129)</u>
Net increase/(decrease) in cash and cash equivalents		3,008,408	(4,331,477)
Effect of foreign exchange rate changes on cash and cash equivalents		(28,046)	59,080
<b>Cash and Cash Equivalents at Beginning of Year</b>		<u>(1,633,982)</u>	<u>2,638,415</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u><u>1,346,380</u></u>	<u><u>(1,633,982)</u></u>
<b>Comprising:</b>			
Cash and bank balances	5	2,087,276	1,492,485
Items in the course of collection from other banks		124,050	141,661
Securities purchased under resale agreements		-	264,784
Items in the course of payment		(111,416)	(109,382)
Short-term loans	14	(253,628)	(1,171,559)
Due to other banks		<u>(499,902)</u>	<u>(2,251,971)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u><u>1,346,380</u></u>	<u><u>(1,633,982)</u></u>

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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### 1. Identification and Activities

- (a) First Global Bank Limited (the Bank) is a limited liability company incorporated and domiciled in Jamaica and is licensed under the Banking Services Act, 2017 (formerly Banking Act, 1992). The Bank is a subsidiary of First Global Holdings Limited and its ultimate parent company is GraceKennedy Limited. Both companies are incorporated and domiciled in Jamaica. The Bank's registered office is located at 28 - 48 Barbados Avenue, Kingston 5.
- (b) The Bank's principal activities are the provision of commercial banking and related financial services.

### 2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### (a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention except for certain financial assets measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Although these estimates are based on management's best knowledge of current events and actions, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

#### Standards, interpretations and amendments to published standards effective in the current year

The Bank has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

The Bank has changed its accounting policies and made certain retrospective adjustments following the adoption of IFRS 9 and IFRS 15. They are disclosed in the respective sections under Notes 2, 3 (a) and 34. The other amendments listed above did not have any impact on the amounts recognised in the prior period and are not expected to significantly affect the current or future periods.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (a) Basis of preparation (continued)

***Standards, interpretations and amendments to published standards not yet effective and have not been early adopted***

- IFRS 16 'Leases' (effective for annual periods beginning on or after 1 January 2019). This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. It replaces the guidance in IAS 17, which made a distinction in classification between leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset (finance leases) and those that do not (operating leases). For a lessee, finance leases were recognised as an asset that was depreciated over the lease term and the amount due to the lessor recognised as borrowings. While operating leases were recognised as a periodic rental payment that was treated as a current expense in the statement of comprehensive income.

IFRS 16 introduces a single lease accounting model for lessees. It requires lessees to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts. The standard includes an optional exemption for certain short-term leases and leases of low-value assets. For lessors, the accounting stays almost the same.

The Bank has been in the process of reviewing all of its leasing arrangements over the last year. A committee with representation from a number of functional areas and led by the Group's Finance Unit was created to oversee the implementation project. The project involves three main phases:

- Phase 1: Impact assessment to determine the key potential areas of impact and to develop a plan to address these points throughout the project.
- Phase 2: Conversion assessment to focus on key areas of impact identified in the first phase and quantification of the required changes to the financial statements; and scenario modelling, which includes modelling the impact of IFRS 16 on the financial statements of the Bank including assessing the impact on ratios.
- Phase 3: Embedding, this includes integration of the new accounting standard into the existing reporting structure, including modifications to processes and systems as required, staff training, converting and validating data, and drafting disclosures for the financial statements.

The Bank has substantially completed Phase 1 and Phase 2 of the project. Based on these phases of the implementation project, the main areas of impact include a significant increase in the overall value of assets and liabilities recognised in the statement of financial position. Based on the size and number of lease contracts previously classified as operating leases under IAS 17, the new approach will result in a significant increase in debt on the statement of financial position.

In addition, an interest expense on the lease liability and depreciation on the right-of-use asset will be presented in the statement of comprehensive income. In comparison with operating leases under IAS 17, this will change not only the allocation of expenses but also the total amount of expenses recognised for each period of the lease term. The combination of a straight line depreciation of the right-of use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (a) Basis of preparation (continued)

***Standards, interpretations and amendments to published standards not yet effective and have not been early adopted (continued)***

- **IFRS 16 'Leases' (continued)**  
The Bank intends to apply the simplified transition approach that allows the measurement of the right-of-use assets at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses), rather than full retrospective application. In addition, as a practical expedient, the Bank is not required to reassess whether a contract is, or contains, a lease at the date of initial application (that is, such contracts are 'grandfathered'). As further provided under this approach, comparatives for 2018 will not be restated.
- **Amendment to IFRS 3, 'Business Combination' on the definition of a business (effective for annual periods beginning on or after 1 January 2020).** This amendment revises the definition of a business, application of the current guidance is commonly thought to be too complex. The Bank is currently assessing the impact of future adoption of this amendment, but it currently does not apply.
- **Amendments to IAS 1 and IAS 8, on the definition of material, (effective for annual periods beginning on or after 1 January 2020).** These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRS to use a consistent definition of materiality throughout IFRS and the Conceptual Framework for Financial Reporting, clarify the explanation of the definition of material and incorporate some of the guidance in IAS 1 about immaterial information. The Bank is currently assessing the impact of future adoption of these amendments.
- **IFRIC 23, 'Uncertainty over income tax treatments' (effective for annual periods beginning on or after 1 January 2019).** This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes' are applied where there is uncertainty over income tax treatments. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether the treatment will be accepted by the tax authority. The Bank is currently assessing the impact of this interpretation.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (b) Foreign currency translation

##### *Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Jamaican dollars which is the Bank's functional and presentation currency.

##### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in arriving at net profit or loss. Changes in the fair value of monetary assets denominated in foreign currencies and classified as fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the asset and other changes. Translation differences resulting from the changes in amortised cost are recognised in arriving at net profit or loss and other changes are recognised in other comprehensive income.

#### (c) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, items in the course of collections/payments, short-term loans, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

#### (d) Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of underlying items such as bonds, equities, interest rates, foreign exchange or other indices. These contracts are initially recognised at fair value on the date that they are entered into, and are subsequently re-measured at their fair value at the date of each statement of financial position. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Assets and liabilities are set off where the contracts are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis.

Derivatives are only used for economic hedging purposes and not as speculative investment. However, where derivatives do not meet the hedge accounting criteria under IFRS 9, Financial Instruments, they are accounted for at fair value through profit or loss.

#### (e) Securities purchased/sold under resale/repurchase agreements

Securities purchased/sold under resale/repurchase agreements are treated as collateralised financing transactions. The difference between the sale/purchase and repurchase/resale price is treated as interest and is accrued over the life of the agreements using the effective yield method.



# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (f) Financial assets

*Accounting policies effective 1 January 2018*

##### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date- the date on which the Bank commits to purchase or sell the asset. At initial recognition, the Bank measures a financial asset or liability at its fair value plus or minus transaction costs for all instruments not carried at fair value through profit or loss. All other financial instruments (including instruments designated at fair value through profit or loss) are measured at fair value, and transaction costs are expensed in the statement of comprehensive income. Immediately after initial recognition, an expected credit loss (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income (FVOCI), as described in Note 3(a), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Bank recognises the differences as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instruments, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

##### Classification and subsequent measurement

As of 1 January 2018, the Bank classifies its financial assets in the following measurement categories in accordance with the requirements under IFRS 9:

- (a) Fair value through profit of loss (FVTPL)
- (b) Fair value through other comprehensive income (FVOCI)
- (c) Amortised cost

##### *Debt Instruments*

Debt instruments include cash and bank balances, items in the course of collection from other banks, loans and advances, investments securities, guarantees and other assets.

Classification and subsequent measurement of debt instruments depend on the Bank's business model for managing the asset and the cash flow characteristics of the asset.

##### Business model assessment

IFRS 9 requires an assessment of the nature of the Bank's business model at a level that best reflects how it manages portfolios of financial assets. The Bank's business models fall into two categories:

- (i) Hold-to-Collect ("HTC"): where the objective of the business model is to solely collect the contractual cash flows from the assets.
- (ii) Hold-to-Collect-and-Sell ("HTC&S"): where both collecting contractual cash flows and cash flows arising from the sale of assets are the objective of the business model.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (f) Financial assets (continued)

*Accounting policies effective 1 January 2018 (continued)*

*Debt Instruments (continued)*

##### Solely payments of principal and interest ("SPPI") assessment

Instruments held within HTC or HTC&S business model are assessed to evaluate if their contractual cash flows are SPPI. SPPI payments are those which would typically be expected from basic lending arrangements. Principal amounts include par repayments from lending and financing arrangements, and interest primarily relates to basic lending returns, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset for a period of time, and a profit margin.

Debt instruments are measured at amortised cost if they are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on de-recognition is recognised directly in profit or loss together with foreign exchange gains or losses. Impairment losses are presented as a separate line item in the statement of comprehensive income.

Debt instruments are measured at FVOCI if they are held for collection of contractual cash flows and for selling the financial assets, where the financial assets' cash flows represent payments of principal and interest. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in net (losses) / gains on investment securities. Interest income from these financial assets is recognised in interest income using the effective interest rate method. Foreign exchange gains or losses are presented in gains in foreign exchange translation and trading and impairment losses are presented as a separate line item in the statement of comprehensive income.

All other debt instruments are measured at FVTPL.

The Bank reclassifies debt instruments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

##### *Equity Instruments*

Equity instruments are measured at FVTPL, unless the asset is not held for trading purposes and the Bank makes an irrevocable election to designate the asset as FVOCI. This election is made on an instrument-by-instrument basis. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

The Bank has elected to irrevocably designate at FVOCI its existing non-trading equity portfolio.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (f) Financial assets (continued)

*Accounting policies effective 1 January 2018 (continued)*

##### Impairment

Under IFRS 9, credit loss allowances are measured on each reporting date according to a three-stage expected credit loss impairment model. Changes in the required credit loss allowance are recorded in profit or loss for the period at each reporting date.

Expected credit losses ('ECL') is established for all financial assets, except for financial assets classified or designated as FVTPL and equity securities designated as FVOCI, which are not subject to impairment assessment. Financial assets subject to impairment assessment include loans and advances, debt securities, and other assets. Loans and debt securities carried at amortised cost are presented net of ECL on the statement of financial position. ECL on debt securities measured at FVOCI is presented in other comprehensive income.

The Bank assesses, on a forward looking basis, the ECL associated with its debt instrument carried at amortised cost and FVOCI and with exposure arising from loan commitments and guarantees.

The estimation of credit exposure for risk management purposes requires the use of complex models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of defaults correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

Write-offs are made when all or part of a loan is deemed uncollectible or is forgiven. Write-offs are charged against previously established provisions for credit losses and reduce the principal amount of a loan or directly through the profit or loss (credit cards).

Recoveries in part or in full of amounts previously written-off are credited to provision for credit losses in arriving at net profit or loss.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (f) Financial assets (continued)

##### Impairment (continued)

Statutory and other regulatory loan loss reserve requirements that exceed the amounts required under IFRS are dealt with in a non-distributable loan loss reserve as an appropriation of retained earnings.

##### De-recognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset have expired, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income ("OCI") is recognised in profit or loss. Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss on de-recognition of such securities but transferred from OCI to retained earnings on disposal.

##### *Accounting policies effective up to 31 December 2017*

##### Initial recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date – the date on which an asset is delivered to or by the Bank – and are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Loans are recognised when cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to originate the loan including any origination fees and transaction costs, and subsequently measured at amortised cost using the effective interest method. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income.

##### Classification and subsequent measurement

The Bank classifies its financial assets at fair value through profit or loss, loans and receivables and available-for-sale categories. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (f) Financial assets (continued)

##### Classification and subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables either meet the definition of loans and receivables at the date of acquisition, or at the date of reclassification from another category. The Bank reclassifies certain financial assets to loans and receivables when the markets for these securities are inactive. The Bank has elected to reclassify financial assets reclassified to loans and receivables back to the available-for-sale category once the markets for these securities become active again. Loans and receivables are carried at amortised cost using the effective interest method.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other category. Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of investments classified as available-for-sale are recognised in other comprehensive income. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in arriving at net profit or loss. Interest on available-for-sale securities calculated using the effective interest method is recognised in arriving at net profit or loss. Dividends on available-for-sale equity instruments are recognised in arriving at net profit or loss when the Bank's right to receive payments is established.

##### Impairment

The Bank assesses at the date of each statement of financial position whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in arriving at net profit or loss – is removed from other comprehensive income and recognised in arriving at net profit or loss. Impairment losses on equity instruments recognised in arriving at net profit or loss are not reversed.

Debt securities are considered impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event or events has an impact on the estimated future cash flows that can be reliably estimated. The amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate. For debt securities carried at amortised cost, the asset's carrying amount is reduced and the amount of loss is recognised in arriving at net profit or loss. For debt securities classified as available-for-sale, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in arriving at net profit or loss – is removed from equity and recognised in arriving at net profit or loss in the current year. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in arriving at net profit or loss for the current year.

A loan is considered impaired when management determines that it is probable that all amounts due according to the original contractual terms will not be collected. When a loan has been identified as impaired, the carrying amount of the loan is reduced by recording specific provisions for credit losses to its estimated recoverable amount, which is the present value of expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (f) Financial assets (continued)

Recoveries in part or in full of amounts previously written-off are credited to provision for credit losses in arriving at net profit or loss.

##### De-recognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

#### (g) Financial liabilities

Financial liabilities are initially measured at fair value net of any transaction costs directly attributable to the issue of the instrument. Such liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is a constant rate on the balance of the liability carried in the statement of financial position. Trade payables and other short-term monetary liabilities, are initially recognised at fair value and subsequently carried at amortised cost.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

#### (h) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is calculated on the straight-line basis at such rates as will write off the carrying value of the assets over the shorter of their expected useful lives or the lease period. The expected useful lives are as follows:

Leasehold improvements	5 – 10 years
Office equipment, furniture and fixtures	10 years
Computer equipment	3 -5 years
Motor vehicles	5 years

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Repairs and maintenance expenses are charged in arriving at net profit or loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the assessed standard of performance of the existing asset will flow to the Bank. Major renovations are depreciated over the remaining useful life of the related asset.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

(i) **Intangible assets**

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three years.

(j) **Employee benefits**

*Pension obligations*

The Bank participates in a defined benefit plan operated by the ultimate parent. The defined benefit plan is generally funded through payments to a trustee-administered fund as determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

In the 2014 financial year, the ultimate parent company assumed the defined benefit pension obligations of all companies within the GraceKennedy Group participating in this scheme. As a result the ultimate parent company recognises the total pension assets and obligations in respect of this plan. Under this arrangement, the obligation of the Bank is limited to the regular monthly pension contributions. Contributions are recognised by the period in which they are incurred.

The Bank also participates in a defined contribution plan operated by the ultimate parent. A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits due.

*Other post-employment benefit obligations*

The entitlement to these benefits is usually based on the employee remaining in service up to post-employment age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period which they arise. These obligations are valued annually by independent qualified actuaries.

*Equity compensation benefits*

The ultimate parent company operates an equity-settled, share-based compensation plan, in which the Bank participates. Stock options in the ultimate parent company are granted to management and key employees of the Bank. The fair value of the employee's services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of non-market vesting conditions. Options are granted at the market price of the shares on the date of the grant and are exercisable at that price. Options are exercisable beginning one year from the date of the grant and have a contractual option term of up to six years. When options are exercised, the proceeds received, net of any transaction costs are passed on to the ultimate parent company and credited to Stock option reserve in equity.

*Termination benefits*

Termination benefits are payable whenever an employee's employment is terminated before the normal post-employment date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either terminate the employment of the current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the date of the statement of financial position are discounted to present value.

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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## 2. Significant Accounting Policies (Continued)

### (j) Employee benefits (continued)

#### *Incentive plans*

The Bank recognises a liability and an expense for bonuses based on a formula that takes into consideration return on equity for the year after certain adjustments. The Bank recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### (k) Income taxes

Taxation expense in the statement of comprehensive income comprises current and deferred tax charges.

Current tax charges are based on taxable profits for the year, which differ from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Bank's liability for current tax is calculated at tax rates that have been enacted at the date of the statement of financial position.

Deferred tax is the tax that is expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Current and deferred taxes are recognised as income tax expense or benefit in arriving at net profit or loss, except where they relate to items recorded in other comprehensive income.

### (l) Guarantees, letters of credit, letters of undertaking and loan commitments

Guarantees, letters of credit and undertaking represent the Bank's potential liability, for which there are equal and offsetting claims against its customers in the event of a call on these commitments. Guarantees, letters of credit and letters of undertaking are measured at fair value.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

From 1 January 2018, the Bank recognises expected credit losses on guarantees, letters of credit and undertaking and loan commitments.



# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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### 2. Significant Accounting Policies (Continued)

#### (m) Income and expense recognition

##### *Interest income and expense*

Interest income and expense are recognised in arriving at net profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discounts or premiums on treasury bills and other instruments.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expenses over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering the contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

##### *Fee and commission income*

From 1 January 2018, the Bank adopted IFRS 15 which resulted in adjustments to the amounts recognised in the financial statements. The adoption of IFRS 15 resulted in a change in accounting policies surrounding credit card fees. Accounting policies for other fee types remained unchanged.

Revenue is recognised as performance obligations are satisfied, that is, over time or at a point in time. Where a customer contract contains multiple performance obligations, the transaction price is allocated to each distinct performance obligation based on the relative stand-alone selling prices of the goods or services being provided to the customer. A contract liability, representing amounts payable to customers, is recognised for advance consideration for which the related performance obligation has not yet been satisfied.

Fee and commission income is generally recognised on an accrual basis when the service has been provided.

Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective interest on the loan.

Credit card fee income is recognised as the performance obligations are satisfied. A contract liability is recognised for advance consideration.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (n) Income and expense recognition

##### *Fee and commission income (continued)*

Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

##### Income earned over time

The Bank recognised contract liabilities in respect of contracts with customers for which consideration was received before the Bank transferred the service to the customer. This resulted in revenue deferral of \$22,707,000 in relation to credit card fees.

As a result of applying IFRS 15 in the current reporting period ended 31 December 2018, line items in the statement of comprehensive income were affected as follows:

	Fees and commissions \$'000	Operating expenses \$'000
Components of the statement of comprehensive income for the 12 months ended 31 December 2018 – IAS 18*	951,023	(1,854,656)
Effects of adopting IFRS 15		
Reclassification of loyalty reward points from expenses to revenue	(58,242)	58,242
Net impact on contract liabilities from the recognition of fee income earned over time	(4,350)	-
Net impact of IFRS 15 on profit or loss	<u>(62,592)</u>	<u>58,242</u>
Components of the statement of comprehensive income for the 12 months ended 31 December 2018 – IFRS 15	<u>888,431</u>	<u>(1,796,414)</u>

\* After accounting for the effects of IFRS 9.

#### (o) Customer loyalty programme

The Bank operates a rewards-based credit card program whereby customers earn reward points for purchases made using their credit card. The points can be redeemed for value at selected merchants who participate in the programme, once certain conditions are met. The adoption of IFRS 15 resulted in a change in the accounting policy surrounding customer loyalty programmes.

##### *Accounting policy effective 1 January 2018*

The consideration received from credit card purchases is allocated to the loyalty points using the relative fair values. In its capacity as an agent, the Bank recognises commission income, being the net of the consideration allocated to the loyalty points and the amounts payable to third parties with primary responsibility for satisfying the performance obligations in respect of awards. A financial liability is recognised in respect of amounts payable to third parties and no breakage is considered. The financial liability is included in 'other liabilities' in the statement of financial position and is recognised until the points are redeemed or expired.

##### *Accounting policy effective up to 31 December 2017*

The Bank recognises revenue in the period in which the points are earned and a provision for the value of outstanding points expected to be redeemed in the future.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

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### 2. Significant Accounting Policies (Continued)

**(p) Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

### 3. Financial Risk Management

The Bank's activities exposes it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the Bank's risk management framework. The following committees were established for managing and monitoring risks:

*Asset and Liability Committee*

The Asset and Liability Committee (ALCO) is a management committee responsible for monitoring and formulating investment portfolios and investment strategies for the Bank. ALCO is also responsible for monitoring adherence to trading limits. Other responsibilities of ALCO include:

- Monitoring management's adherence to policies and procedures that are established to ensure that the Bank has adequate liquidity at all times;
- Monitoring and measuring capital adequacy for regulatory and business requirements;
- Establishing asset and liability pricing policies to protect the liquidity structure as well as assess the probability of various liquidity shocks and interest rate scenarios;
- Monitoring the statement of financial position and ensuring business strategies are consistent with liquidity requirements;
- Establishing and monitoring relevant liquidity ratios and statement of financial position targets; and
- Ensuring full compliance with the Bank's Asset and Liability Manual as it relates to the management of liquidity risk, interest rate risk and foreign exchange risk.

The minutes of the ALCO meetings are submitted to the Board of Directors.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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### 3. Financial Risk Management (Continued)

#### *Audit Committee*

The Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures, reviews the adequacy of the risk management framework in relation to the risks faced by the Bank and monitors regulatory compliance. The Audit Committee is assisted in its oversight role by the Internal Audit department of the ultimate parent company. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

#### *Credit Committee*

The Credit Committee manages the Bank's credit portfolio. The Chairman and the members of the committee are charged with the responsibility to approve credit within their designated limits and make recommendations to the Board of Directors.

The most important types of risks are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate and other price risk.

#### (a) **Credit risk**

The Bank takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the Bank by failing to discharge their contractual obligations. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in investment and lending activities.

For its investment activities, the Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments. For its lending activities, consideration is given to sectoral exposure, as well as to counterparty and group risk. Sectoral exposure as well as counterparty and group exposures are monitored by the Credit Risk team. Additionally, much emphasis is placed on determining the adequacy of cash flow being generated by the counterparty to meet repayment terms, the availability of tangible security that may be realised as a secondary source of payment in the event that cash flow is impaired, and the timeliness and quality of financial information available on/from the counterparty/customer to assist in predicting its future performance.

Credit-related commitment risks also arise from guarantees/bonds issued by the Bank which may require payment on behalf of customers. Such guarantees/bonds are issued after analysis of the customers making the request to ensure that they have a good record of performance in the activity for which the bond or guarantee is being sought, as well as the taking of security as a secondary source of recovery in case of need. Generally, guarantees/bonds expose the Bank to similar risks as loans, and these are mitigated by the same control policies and processes.

#### *Credit review process*

The Bank has established a credit quality review process involving regular analysis of the ability of borrowers and other counterparties to meet interest and principal repayment obligations.

#### *Loans*

The Bank assesses the probability of default of individual counterparties using internal ratings. The Bank's clients are segmented into four rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class.

# First Global Bank Limited

Notes to the Financial Statements

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## 3. Financial Risk Management (Continued)

### (a) Credit risk (continued)

The Bank's internal classification is as follows:

Rating	Description	
1	Low risk	– excellent credit history
2	Standard risk	– generally abides by credit terms
3	Past due but not impaired	– late paying with increased credit risk
4	Credit impaired	– default

Exposure to credit risk is managed in part by obtaining collateral and corporate and personal guarantees. Counterparty limits are established by the use of a credit classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risk to which it is exposed and take corrective action.

#### *Investments*

External rating agency credit grades are used to assess credit quality. These published grades are monitored and updated. Default probabilities and recovery rates are assigned as published by the rating agency.

The Bank limits its exposure to credit risk arising from investments by adhering to the investment counterparty limits as approved by the ALCO. Counterparty limits are reviewed and updated periodically.

#### *Impairment of Financial Assets*

The carrying values of and ECL on the Bank's financial assets that are subject to the expected credit loss model for the current period are included in the table below:

	Carrying Value \$'000	ECL \$'000
<b><i>On-balance sheet</i></b>		
Cash and bank balances	7,423,264	-
Items in the course of collection from other banks	124,050	-
Loans and advances, net of provision for credit losses	25,456,005	925,204
Investment securities, including pledged assets	20,393,899	110,088
Due from fellow subsidiaries included in other assets	416,750	-
Guarantees, letters of credit and letters of undertaking, net of provision for credit losses	218,120	6,102
<b><i>Off-balance sheet</i></b>		
Guarantees and letters of credit	242,112	6,406
Loan commitments	539,114	9,439
Total ECL on loans and advances, guarantees and loan commitments		947,152
Total ECL on investment securities		110,088

Cash and bank balances, items in the course of collection from other banks and due from fellow subsidiaries are assessed to have low credit risk at the reporting date and the identified impairment losses are deemed immaterial.

# First Global Bank Limited

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(expressed in Jamaican dollars unless otherwise indicated)

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## 3. Financial Risk Management (Continued)

### (a) Credit risk (continued)

#### *Impairment of Financial Assets (continued)*

##### **Loans and advances**

The Bank applies the 'three stage' model under IFRS 9 in measuring the expected credit losses on loans and advances, and makes estimations about likelihood of defaults occurring, associated loss ratios, changes in market conditions, and expected future cash flows. This is measured using the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) for a portfolio of assets.

- Probability of Default - This represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (12 month PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- Exposure at Default - This represents the expected balance at default, taking into account the repayment of principal and interest from the statement of financial position date to the default event together with any expected drawdowns of committed facilities.
- Loss Given Default – The LGD represents expected losses on the EAD given the event of default, taking into account the mitigating effect of collateral value at the time it is expected to be realised and also the time value of money.

The 'three stage' model is used to categorise financial assets according to credit quality as follows:

- Stage 1 – financial assets that are not credit impaired on initial recognition or are deemed to have low credit risk. These assets generally abide by the contractual credit terms. The ECL is measured using a 12 month PD, which represents the probability that the financial asset will default within the next 12 months.
- Stage 2 – financial assets with a significant increase in credit risk (SICR) since initial recognition, but are not credit impaired. The ECL is measured using a lifetime PD.
- Stage 3 – credit impaired financial assets. The ECL is measured using a lifetime PD.

##### *Transfer between stages*

Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment. This assessment is done on a case-by-case basis.

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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## 3. Financial Risk Management (Continued)

### (a) Credit risk (continued)

#### *Impairment of Financial Assets (continued)*

#### *Loans and advances (continued)*

#### Significant Increase in Credit Risk (SICR)

The Bank considers a financial asset to have experienced a significant increase in credit risk when one or more of the following qualitative or backstop criteria have been met:

#### *Qualitative Criteria*

- Deterioration in the Borrower's Risk Rating (BRR) below established threshold
- Material misrepresentation or inaccurate warranty
- Failure to comply with provisions of any statute under which the borrower conducts business
- Borrower enters into a scheme of arrangement
- Actual or expected restructuring
- Previous arrears within the last six months
- Early signs of cash flow/liquidity problems
- Expected significant adverse change in operating results of the borrower

However, the assessment of significant increase in credit risk and the above criteria will differ for different types of lending arrangements.

Loan commitments are assessed along with the category of loan the Bank is committed to provide.

The assessment of SICR is performed for individual loans, taking into consideration the sector grouping of the individual exposures, and incorporates forward looking information. This assessment is performed on a quarterly basis.

#### *Backstop*

Irrespective of the above qualitative assessment, the Bank presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The Bank has monitoring procedures in place to assess whether the criteria used to identify SICR continues to be appropriate.

The Bank utilised the low credit risk exemption for financial assets both at initial application of IFRS 9 and also at 31 December 2018.

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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## 3. Financial Risk Management (Continued)

### (a) Credit risk (continued)

#### *Impairment of Financial Assets (continued)*

#### *Loans and advances (continued)*

#### Credit Impaired Assets

The Bank defines a financial instrument as credit impaired, when it meets one or more of the following criteria:

#### *Quantitative criterion*

The borrower is more than 90 days past due on its contractual payments.

#### *Qualitative criteria*

The borrower meets unlikelihood to pay criteria as outlined below, which indicates the borrower is in significant financial difficulty:

- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Concessions have been made by the lender relating to the borrower's financial difficulty.

The criteria above have been applied to all financial assets held by the Bank and are consistent with the definition of default used for internal credit risk management purposes.

#### Measuring the ECL – Inputs, Assumptions and Estimation Techniques

The assessment of credit risk and the estimation of ECL are unbiased and probability-weighted, and incorporate all available information that is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date.

The ECL is determined by projecting the PD, LGD, and EAD, which are multiplied together and discounted back to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The 12 month PD is calculated by observing the rate of historical default within the first year of a portfolio of loans, and adjusted for the expected impact of forward looking economic information.

The lifetime PD is calculated by observing the rate of historical default over the life of a portfolio of loans, and adjusted for the impact of forward looking economic information.

The EAD for amortising and bullet repayment loans represents the expected balance at default, taking into account the repayment of principal and interest from the statement of position date to the default event together with any expected drawdowns of committed facilities.

The EAD for revolving products, such as credit cards, revolving loans and overdrafts is estimated by taking the current drawn balance and the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Bank's recent default data.



# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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### 3. Financial Risk Management (Continued)

#### (a) Credit risk (continued)

##### *Impairment of Financial Assets (continued)*

##### *Loans and advances (continued)*

##### Measuring the ECL – Inputs, Assumptions and Estimation Techniques (continued)

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type. For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

##### Forward Looking Information

The assessment of SICR and the calculation of ECL both incorporate forward looking information that is available without undue cost or effort. The Bank uses external information including economic data and forecasts published by governmental bodies and the central bank. The information published however does not cover the Bank's credit risk exposure period and judgement was applied when incorporating these forecasts into our models. The Bank started with historical data of approximately 3 years in which a relationship between macro-economic indicators and default rates was developed. Judgement was applied in cases where a strong relationship between these key economic variables and expected credit losses was not identified based on the historical data used.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial asset. Forecasts of these economic variables are reviewed on a quarterly basis. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The Bank used three forward looking economic scenarios for each portfolio of loans (base, upside, downside). The base case is the single most-likely expected outcome. The scenario weightings are determined using judgment.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

## 3. Financial Risk Management (Continued)

### (a) Credit risk (continued)

#### *Impairment of Financial Assets (continued)*

#### *Loans and advances (continued)*

The most significant year end assumptions used in determining the ECL as at the reporting date are set out below.

<u>Economic factor</u>	<u>Scenarios</u>	<u>Range</u>
Gross Domestic Product (GDP)	Base	0.5% - 1.5%
	Upside	1.5% - 2.5%
	Downside	0.0%
Unemployment Rate	Base	12% - 14%
	Upside	8% - 10%
	Downside	13% - 15%

The underlying models and their calibration, including how they react to forward looking economic conditions was based on how the relationship of the Bank's existing portfolio responds to these variables and remains subject to review and refinement as the Bank builds data.

Other forward looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

#### Sensitivity Analysis

Forward looking indicators having the most significant impact on the ECL are GDP growth and unemployment rate. Set out below are the changes to the ECL as at 31 December 2018 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Bank's economic variable assumptions:

<u>Forward Looking Indicator</u>	<u>Change in basis points:</u>	<u>Effect on ECL \$'000</u>	<u>Forward Looking Indicator</u>	<u>Change in basis points:</u>	<u>Effect on ECL \$'000</u>
GDP growth	+ 100bp	21,968	Unemployment rate	+ 100bp	(13,419)
GDP growth	- 100bp	(21,968)	Unemployment rate	- 100bp	13,419

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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## 3. Financial Risk Management (Continued)

### (a) Credit risk (continued)

#### *Impairment of Financial Assets (continued)*

#### *Loans and advances (continued)*

##### Portfolio Segmentation

For stages 1 and 2, the expected credit loss provisions are modelled on a collective basis, by grouping exposures on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

Exposures are grouped according to product type (term loans, overdrafts, credit cards, revolvers, guarantees and loan commitments) and industry (for example, manufacturing and distribution, tourism, personal loans).

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk team.

Stage 3 loans are assessed on an individual basis for impairment.

##### Maximum Exposure to Credit Risk

The Bank measures ECL considering the risk of default over the maximum contractual period (including extension options) over which it is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial assets such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. For such financial assets the Bank measures ECL over the period that it is exposed to the credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial assets do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Bank does not enforce in the normal day-to-day management the contractual right to cancel these financial assets. This is because these financial assets are managed on a collective basis and are canceled only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take to mitigate ECL.

The gross carrying amount of loans and advances below represents the Bank's maximum exposure to credit risk on these assets. The following table contains an analysis of the credit risk exposure of loans and advances for which an ECL allowance is recognised.

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

## 3. Financial Risk Management (Continued)

### (a) Credit risk (continued)

#### *Impairment of Financial Assets (continued)*

#### *Loans and advances (continued)*

	2018			Total \$'000	2017 Total \$'000
	Stage 1 12-month ECL \$'000	Stage 2 Lifetime ECL \$'000	Stage 3 Lifetime ECL \$'000		
<b>On-balance sheet credit exposures</b>					
Investment grade	-	-	-	-	506
Standard risk	18,804,119	2,811,067	-	21,615,187	22,456,493
Past due	1,242,739	2,238,044	-	3,480,783	3,078,626
Credit impaired	-	-	1,294,678	1,294,678	1,578,279
	<u>20,046,858</u>	<u>5,049,112</u>	<u>1,294,678</u>	<u>26,390,648</u>	<u>27,113,922</u>
Guarantees, letters of credit and letters of undertaking	-	230,628	-	230,628	515,569
<b>Gross carrying amount</b>	<u>20,046,858</u>	<u>5,279,740</u>	<u>1,294,678</u>	<u>26,621,276</u>	<u>27,629,491</u>
Loss allowance	(227,951)	(260,794)	(442,561)	(931,306)	(633,298)
<b>Carrying amount</b>	<u>19,818,907</u>	<u>5,018,946</u>	<u>852,117</u>	<u>25,689,970</u>	<u>26,996,193</u>
<b>Off-balance sheet credit exposures</b>					
Guarantees, letters of credit and letters of undertaking	-	242,112	-	242,112	267,678
Loan commitments	-	539,114	-	539,114	1,443,956
<b>Gross carrying amount</b>	-	<u>781,225</u>	-	<u>781,225</u>	<u>1,711,634</u>
Loss allowance	-	(15,846)	-	(15,846)	-
<b>Carrying amount</b>	-	<u>765,379</u>	-	<u>765,379</u>	<u>1,711,634</u>

Gross carrying amount includes interest receivable of \$130,018,000 (2017- \$212,462,000). Additional information on the carrying value is included in Note 7.

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

## 3. Financial Risk Management (Continued)

### (a) Credit risk (continued)

#### *Impairment of Financial Assets (continued)*

#### *Loans and advances (continued)*

#### Concentration of credit risk

The majority of loans are extended to customers in Jamaica. The following table summarises the Bank's credit exposure for loans at their carrying amounts, as categorised by industry sector:

	Number of loan accounts		Credit exposure	
	2018	2017	2018 \$'000	2017 \$'000
Public sector	2	2	371	506
Financial institutions	22	26	27,344	97,627
Agriculture	35	31	583,905	491,996
Mining and quarrying	3	3	24,827	41,222
Manufacturing	60	68	1,611,978	1,660,989
Construction and land development	33	55	569,511	1,197,843
Transportation, storage and communication	119	118	2,820,517	2,898,110
Electricity, gas and water	13	16	1,556,176	1,580,163
Distribution	100	125	2,698,536	2,693,234
Tourism	21	16	1,608,853	1,554,724
Entertainment	2	7	7,035	2,241
Professional and other services	275	246	3,867,390	4,471,631
Individuals	14,847	15,294	10,079,562	9,790,291
	<u>15,532</u>	<u>16,007</u>	<u>25,456,005</u>	<u>26,480,577</u>

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

## 3. Financial Risk Management (Continued)

### (a) Credit risk (continued)

#### *Impairment of Financial Assets (continued)*

#### *Loans and advances (continued)*

#### Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Bank utilises valuation of the collateral obtained as part of the loan origination process in the ECL model. An assessment of these valuations is done periodically. The principal collateral types for loans and advances are:

- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges and hypothecations over deposit balances and financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of reverse repurchase agreements which are secured by portfolios of debt securities.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral held during its annual reviews of individual credit facilities as well as during its review of the adequacy of the provision for credit losses.

Loans and advances that are credit impaired and the related collateral held in order to mitigate potential losses are shown below:

	2018			
	Gross Carrying Amount \$'000	Loss Allowance \$'000	Net Carrying Amount \$'000	Fair Value of Collateral Held \$'000
Retail loans and advances -				
Term loans and revolvers	532,627	(244,104)	288,523	511,740
Overdrafts	85,933	(58,142)	27,791	13,601
Corporate loans and advances -				
Term loans and revolvers	676,118	(140,315)	535,803	1,422,149
	<u>1,294,678</u>	<u>(442,561)</u>	<u>852,117</u>	<u>1,947,490</u>

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

## 3. Financial Risk Management (Continued)

### (a) Credit risk (continued)

#### *Impairment of Financial Assets (continued)*

#### *Loans and advances (continued)*

#### Loss Allowance

The loss allowance recognised in the period is impacted by a variety of factors. The following table explains the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

	2018			2017	
	Stage 1 12-month ECL \$'000	Stage 2 Lifetime ECL \$'000	Stage 3 Lifetime ECL \$'000	Total \$'000	Total \$'000
<b>At 1 January</b>	240,654	306,141	509,131	1,055,926	581,846
<b>Movements with profit or loss impact:</b>					
<b>Transfers:</b>					
Transfer from Stage 1 to Stage 2	(13,470)	32,286	-	18,816	-
Transfer from Stage 1 to Stage 3	(1,685)	-	22,437	20,752	-
Transfer from Stage 2 to Stage 1	-	(330)	-	(330)	-
Transfer from Stage 2 to Stage 3	-	(2,398)	12,618	10,219	-
New financial assets originated	92,229	-	-	92,229	-
Changes in PDs/LGDs/EADs	(27,204)	4,302	97,044	74,142	-
Financial assets derecognised during the period	(61,931)	(5,976)	(44,034)	(111,940)	-
Direct write offs	-	-	79,864	79,864	-
Provided for during the year (IAS 39)	-	-	-	-	174,568
Recoveries	-	-	(60,141)	(60,141)	(67,114)
<b>Loss allowance recognised in profit or loss</b>	<b>(12,061)</b>	<b>27,884</b>	<b>107,633</b>	<b>123,456</b>	<b>107,454</b>
<b>Other movements:</b>					
Write-offs against provision	-	-	(232,231)	(232,231)	(55,952)
<b>At 31 December</b>	<b>228,593</b>	<b>324,025</b>	<b>384,533</b>	<b>947,151</b>	<b>633,348</b>

Loans and leases are written off, in whole or in part, when the Bank has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity, and where the Bank's recovery method is foreclosing on collateral, and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write off account balances that are still subject to enforcement activity, based on a reasonable expectation of amounts recoverable. The outstanding contractual amounts of such assets written off during the year ended 31 December 2018 was \$212,663,000.

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

## 3. Financial Risk Management (Continued)

### (a) Credit risk (continued)

#### *Impairment of Financial Assets (continued)*

##### **Debt securities**

The Bank uses external credit ratings as published by established rating agencies in its assessment of the probability of default on debt securities. The PDs and LGDs for government and corporate bonds have been developed by the rating agencies based on statistics on the default, loss and rating transition experience of government and corporate bond issuers. The loss allowance on debt securities carried at amortised cost and FVOCI is measured using lifetime PDs.

Credit ratings and associated PDs are updated when external information becomes available or when our internal monitoring processes identifies a reasonable basis for an adjustment. Monitoring of these is performed on a quarterly basis.

Based on available credit ratings for sovereign and corporate debts, the debt securities were classified in stage 2 as they were below investment grade as defined by reputable rating agencies.

##### Concentration of Credit Risk

The following table summarises the credit exposure for debt securities at their carrying amounts as categorised by issuer:

	2018 \$'000	2017 \$'000
Government of Jamaica	7,608,729	7,119,491
Bank of Jamaica	4,061,957	4,538,500
Corporates	8,287,838	5,690,834
Other regional governments	430,355	457,284
Financial institutions	-	264,784
	<u>20,388,879</u>	<u>18,070,893</u>



# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (a) Credit risk (continued)

##### *Impairment of Financial Assets (continued)*

##### *Debt securities (continued)*

##### Debt securities at amortised cost

The loss allowance for debt securities at amortised cost reconciles from the opening loss allowance on 1 January 2018 to the closing loss allowance as at 31 December 2018 as follows:

	2018 \$'000
At 1 January 2018 – calculated under IFRS 9	92,545
Loss allowance recognised in profit or loss	17,543
At 31 December	<u>110,088</u>

##### Debt securities at FVOCI

The loss allowance for debt securities at FVOCI is recognised in profit or loss and reduces the fair value loss otherwise recognised in OCI.

The loss allowance for debt securities at FVOCI reconciles from opening loss allowance on 1 January 2018 to the closing loss allowance as at 31 December 2018 as follows:

	2018 \$'000
At 1 January 2018 – calculated under IFRS 9	85,233
Loss allowance recognised in profit or loss	15,958
Unused amounts reversed on global bonds sold during the year	(19,474)
At 31 December	<u>81,717</u>

Loss allowance recognised in profit or loss during the period is summarised below:

	2018 \$'000
Loans and advances	123,456
Investment securities - at amortised cost	17,543
Investment securities - at FVOCI	15,958
	<u>156,957</u>

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

## 3. Financial Risk Management (Continued)

### (a) Credit risk (continued)

#### Maximum Exposure to Credit Risk – Other Exposures

The table below shows the Bank's maximum exposure to credit risk for other financial assets carried on the statement of financial position, without taking account of any collateral held or credit enhancement:

	2018 \$'000	2017 \$'000
Cash and bank	6,805,280	6,678,081
Items in the course of collection from other banks	124,050	141,661
Securities purchased under agreements to resell	-	264,784
Other assets	236,214	717,144
	<u>7,165,544</u>	<u>7,801,669</u>

### (b) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due.

#### *Liquidity risk management process*

The Bank's liquidity management process, as carried out within the Bank and monitored by the Treasury Department, includes:

- (i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required;
- (ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- (iii) Maintaining committed lines of credit;
- (iv) Optimising cash returns on investments;
- (v) Monitoring statement of financial position liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities; and
- (vi) Managing the concentration, profile and maturities of debt securities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Bank. It is unusual for companies ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (b) Liquidity risk (continued)

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

#### *Cash flows of financial instruments*

The tables below present the undiscounted cash flows (both interest and principal cash flows) of the Bank's financial assets and liabilities based on contractual repayment obligations. The Bank expects that, based on estimates made by management as determined by retention history, many customers will not request repayment on the earliest date the Bank could be required to pay. The Bank is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from its ultimate parent company and other financing institutions.

	2018					Total \$'000
	Within 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	No specific Maturity \$'000	
<b>Total financial assets</b>	<b>6,855,830</b>	<b>3,836,532</b>	<b>20,595,111</b>	<b>33,827,783</b>	<b>5,754,352</b>	<b>70,869,608</b>
<b>Financial liabilities</b>						
Customer deposits	32,745,352	4,968,970	22,680	-	-	37,737,002
Items in the course of payment	111,416	-	-	-	-	111,416
Due to other banks	499,902	-	-	-	-	499,902
Securities sold under repurchase agreements	2,793,150	2,859,119	1,098,752	843,803	-	7,594,824
Short-term loans	253,646	-	-	-	-	253,646
Other borrowed funds	80,305	254,165	894,284	139,699	-	1,368,453
Other liabilities	630,410	-	-	-	-	630,410
Guarantees, letters of credit and letters of undertaking	180,962	21,666	1,000	27,000	-	230,628
<b>Total financial liabilities</b>	<b>37,295,143</b>	<b>8,103,920</b>	<b>2,016,716</b>	<b>1,010,502</b>	<b>-</b>	<b>48,426,281</b>

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (b) Liquidity risk (continued)

##### *Cash flows of financial instruments (continued)*

	2017					Total \$'000
	Within 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	No specific Maturity \$'000	
<b>Total financial assets</b>	6,620,529	5,342,568	19,167,439	33,556,780	5,811,414	70,498,730
<b>Financial liabilities</b>						
Customer deposits	31,506,331	5,312,722	7,572	-	-	36,826,625
Items in the course of payment	109,382	-	-	-	-	109,382
Due to other banks	2,251,971	-	-	-	-	2,251,971
Securities sold under repurchase agreements	2,762,926	-	1,123,018	-	-	3,885,944
Short-term loans	1,171,735	-	-	-	-	1,171,735
Other borrowed funds	76,750	244,879	944,167	22,103	-	1,287,899
Other liabilities	598,011	-	-	-	-	598,011
Guarantees, letters of credit and letters of undertaking	487,569	-	1,000	27,000	-	515,569
<b>Total financial liabilities</b>	38,964,675	5,557,601	2,075,757	49,103	-	46,647,136

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (c) Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Risk and Compliance department which carries out extensive research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis. There has been no change to the Bank's exposure to market risk or the manner in which it manages and measures the risk.

#### Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Bank manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept at an acceptable level by monitoring currency positions. The Bank further manages this risk by maximising foreign currency earnings, holding foreign currency balances and by entering into foreign currency forward contracts. The net currency exposure of financial assets and liabilities at 31 December was as follows:

	2018					Total J\$'000
	Jamaican\$ J\$'000	US\$ J\$'000	GBP J\$'000	CAN\$ J\$'000	Euro J\$'000	
<b>Financial assets</b>						
Cash and bank balances	3,370,397	3,644,404	265,898	96,965	45,600	7,423,264
Items in the course of collection from other banks	73,655	50,395	-	-	-	124,050
Loans and advances, net of provision for credit losses	19,270,533	6,185,456	-	16	-	25,456,005
Investment securities and pledged assets	6,031,561	14,362,338	-	-	-	20,393,899
Other assets	173,437	62,777	-	-	-	236,214
Guarantees, letters of credit and letters of undertaking	218,120	-	-	-	-	218,120
<b>Total financial assets</b>	<b>29,137,703</b>	<b>24,305,370</b>	<b>265,898</b>	<b>96,981</b>	<b>45,600</b>	<b>53,851,552</b>
<b>Financial liabilities</b>						
Customer deposits	18,914,766	18,331,924	282,095	86,536	41,390	37,656,711
Items in the course of payment	111,416	-	-	-	-	111,416
Due to other banks	-	499,902	-	-	-	499,902
Securities sold under repurchase agreements	2,406,976	4,801,361	-	-	-	7,208,337
Short-term loans	-	253,628	-	-	-	253,628
Other borrowed funds	797,095	398,363	-	-	-	1,195,458
Other liabilities	331,654	296,281	-	1,774	701	630,410
Guarantees, letters of credit and letters of undertaking	230,628	-	-	-	-	230,628
<b>Total financial liabilities</b>	<b>22,792,535</b>	<b>24,581,459</b>	<b>282,095</b>	<b>88,310</b>	<b>42,091</b>	<b>47,786,490</b>
<b>Net financial position</b>	<b>6,345,168</b>	<b>(276,089)</b>	<b>(16,197)</b>	<b>8,671</b>	<b>3,509</b>	<b>6,065,062</b>

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

(c) Market risk (continued)  
Currency risk (continued)

	2017					Total J\$'000
	Jamaican\$ J\$'000	US\$ J\$'000	GBP J\$'000	CAN\$ J\$'000	Euro J\$'000	
<b>Financial assets</b>						
Cash and bank balances	3,107,199	3,572,910	265,900	82,543	42,018	7,070,570
Items in the course of collection from other banks	114,716	26,330	-	615	-	141,661
Loans and advances, net of provision for credit losses	20,089,452	6,391,117	-	8	-	26,480,577
Securities purchased under resale agreements	202,508	62,276	-	-	-	264,784
Investment securities and pledged assets	3,922,937	13,888,192	-	-	-	17,811,129
Other assets	578,783	40,087	16,619	4,317	12,521	652,327
Guarantees, letters of credit and letters of undertaking	218,224	297,345	-	-	-	515,569
<b>Total financial assets</b>	<b>28,233,819</b>	<b>24,278,257</b>	<b>282,519</b>	<b>87,483</b>	<b>54,539</b>	<b>52,936,617</b>
<b>Financial liabilities</b>						
Customer deposits	17,895,776	18,400,960	280,362	85,882	53,016	36,715,996
Items in the course of payment	109,382	-	-	-	-	109,382
Due to other banks	-	2,251,971	-	-	-	2,251,971
Securities sold under repurchase agreements	1,746,758	2,045,962	-	-	-	3,792,720
Short-term loans	500,144	671,415	-	-	-	1,171,559
Other borrowed funds	842,708	283,461	-	-	-	1,126,169
Other liabilities	460,813	136,771	23	397	7	598,011
Guarantees, letters of credit and letters of undertaking	218,224	297,345	-	-	-	515,569
<b>Total financial liabilities</b>	<b>21,773,805</b>	<b>24,087,885</b>	<b>280,385</b>	<b>86,279</b>	<b>53,023</b>	<b>46,281,377</b>
<b>Net financial position</b>	<b>6,460,014</b>	<b>190,372</b>	<b>2,134</b>	<b>1,204</b>	<b>1,516</b>	<b>6,655,240</b>

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

## 3. Financial Risk Management (Continued)

### (c) Market risk (continued)

#### *Currency risk (continued)*

##### *Foreign currency sensitivity*

The following table indicates the currencies to which the Bank had significant exposure on its monetary assets and liabilities and its forecast cash flows. The table below represents management's assessment of the possible change in foreign exchange rates and the impact on income. There is no direct impact on other components of equity. The sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation for the possible change in foreign currency rates. The correlation of variables will have a significant effect on determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be on an individual basis.

	2018		2017	
	% Change in Currency Rate	Effect on Income \$'000	% Change in Currency Rate	Effect on Income \$'000
<b>Currency:</b>				
US\$	4% Depreciation	(11,044)	4% Depreciation	7,615
GBP	4% Depreciation	(648)	4% Depreciation	85
CAN\$	4% Depreciation	347	4% Depreciation	48
EURO	4% Depreciation	140	4% Depreciation	61
US\$	-2% Appreciation	5,522	-2% Appreciation	(3,807)
GBP	-2% Appreciation	324	-2% Appreciation	(43)
CAN\$	-2% Appreciation	(173)	-2% Appreciation	(24)
EURO	-2% Appreciation	(70)	-2% Appreciation	(30)

#### *Interest rate risk*

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing level of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Floating rate instruments expose the Bank to cash flow interest risk, whereas fixed interest rate instruments expose the Bank to fair value interest risk.

The Bank's interest rate risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and liabilities. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken. These limits are monitored by the ALCO.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (c) Market risk (continued)

##### *Interest rate risk (continued)*

The following tables summarise the Bank's exposure to interest rate risk. They include the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The tables represent those financial instruments whose interest rates change concurrently with a change in the underlying interest rate basis.

	2018				Total \$'000
	Within 3 months \$'000	3 to 12 months \$'000	Over 12 months \$'000	Non rate sensitive \$'000	
<b>Financial assets</b>					
Cash and bank balances	1,673,933	-	-	5,749,331	7,423,264
Items in the course of collection from other banks	-	-	-	124,050	124,050
Loans and advances, net of provision for credit losses	3,129,345	560,707	21,765,953	-	25,456,005
Investment securities and pledged assets	3,622,593	2,974,361	13,791,925	5,020	20,393,899
Other assets	-	-	-	236,214	236,214
Guarantees, letters of credit and letters of undertaking	-	-	-	218,120	218,120
<b>Total financial assets</b>	<b>8,425,872</b>	<b>3,535,068</b>	<b>35,557,878</b>	<b>6,332,735</b>	<b>53,851,552</b>
<b>Financial liabilities</b>					
Customer deposits	32,658,279	4,885,751	21,834	90,847	37,656,711
Items in the course of payment	-	-	-	111,416	111,416
Due to other banks	499,902	-	-	-	499,902
Securities sold under repurchase agreements	2,788,598	2,757,014	1,648,464	14,261	7,208,337
Short-term loans	253,610	-	-	-	253,610
Other borrowed funds	64,941	212,110	917,500	907	1,195,458
Other liabilities	-	-	-	630,410	630,410
Guarantees, letters of credit and letters of undertaking	-	-	-	230,628	230,628
<b>Total financial liabilities</b>	<b>36,265,330</b>	<b>7,854,875</b>	<b>2,587,798</b>	<b>1,078,469</b>	<b>47,786,472</b>
<b>Total interest repricing gap</b>	<b>(27,839,459)</b>	<b>(4,319,807)</b>	<b>32,970,080</b>	<b>5,254,266</b>	<b>6,065,080</b>
<b>Cumulative gap</b>	<b>(27,839,459)</b>	<b>(32,159,266)</b>	<b>810,815</b>	<b>6,065,080</b>	



# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

## 3. Financial Risk Management (Continued)

### (c) Market risk (continued) Interest rate risk (continued)

	2017				
	Within 3 months	3 to 12 months	Over 12 months	Non rate sensitive	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>					
Cash and bank balances	1,264,176	-	-	5,806,394	7,070,570
Items in the course of collection from other banks	-	-	-	141,661	141,661
Securities purchased under resale agreements	264,784	-	-	-	264,784
Loans and advances, net of provision for credit losses	3,327,938	1,607,362	21,545,277	-	26,480,577
Investment securities and pledged assets	3,295,426	2,885,912	11,624,771	5,020	17,811,129
Other assets	-	-	-	652,327	652,327
Guarantees, letters of credit and letters of undertaking	-	-	-	515,569	515,569
<b>Total financial assets</b>	<b>8,152,324</b>	<b>4,493,274</b>	<b>33,170,048</b>	<b>7,120,971</b>	<b>52,936,617</b>
<b>Financial liabilities</b>					
Customer deposits	31,338,638	5,244,570	7,368	125,420	36,715,996
Items in the course of payment	-	-	-	109,382	109,382
Due to other banks	2,251,971	-	-	-	2,251,971
Securities sold under repurchase agreements	2,758,303	-	1,025,508	8,909	3,792,720
Short-term loans	1,171,242	-	-	317	1,171,559
Other borrowed funds	60,112	202,106	863,162	789	1,126,169
Other liabilities	-	-	-	598,011	598,011
Guarantees, letters of credit and letters of undertaking	-	-	-	515,569	515,569
<b>Total financial liabilities</b>	<b>37,580,266</b>	<b>5,446,676</b>	<b>1,896,038</b>	<b>1,358,397</b>	<b>46,281,377</b>
<b>Total interest repricing gap</b>	<b>(29,427,942)</b>	<b>(953,402)</b>	<b>31,274,010</b>	<b>5,762,574</b>	<b>6,655,240</b>
<b>Cumulative gap</b>	<b>(29,427,942)</b>	<b>(30,381,344)</b>	<b>892,666</b>	<b>6,655,240</b>	

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Financial Risk Management (Continued)

#### (c) Market risk (continued)

##### *Interest rate risk (continued)*

The table below summarises the weighted average effective yields of interest rate sensitive financial instruments by currency:

	2018				
	Jamaican\$ %	US\$ %	GBP %	CAN\$ %	Euro %
Cash and bank balances	-	0.30	-	-	-
Loans and advances, net of provision for credit losses	12.59	8.62	-	-	-
Investment securities	4.42	7.15	-	-	-
Customer deposits	1.29	0.63	0.21	0.12	0.07
Securities sold under repurchase agreements	3.58	4.09	-	-	-
Short-term loans	-	2.60	-	-	-
Other borrowed funds	5.68	4.17	-	-	-

	2017				
	Jamaican\$ %	US\$ %	GBP %	CAN\$ %	Euro %
Cash and bank balances	2.00	0.30	-	-	-
Securities purchased under resale agreements	5.65	1.35	-	-	-
Loans and advances, net of provision for credit losses	13.71	8.10	-	10.00	-
Investment securities	6.62	7.94	-	-	-
Customer deposits	2.26	0.74	0.23	0.10	0.11
Securities sold under repurchase agreements	4.10	2.07	-	-	-
Short-term loans	3.50	1.25	-	-	-
Other borrowed funds	5.69	4.25	-	-	-

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

## 3. Financial Risk Management (Continued)

### (c) Market risk (continued)

#### *Interest rate risk (continued)*

##### *Interest rate sensitivity*

The following table indicates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Bank's income and equity.

The sensitivity of income is the effect of the assumed changes in interest rates on net income based on the floating rate non-trading financial assets and financial liabilities. The sensitivity of equity is calculated by revaluing fixed-rate available-for-sale financial assets for the assumed changes in interest rates. The correlations of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be done on an individual basis. It should be noted that movements in these variables are non-linear.

2018			2017		
Change in basis points JMD/USD	Net Effect on Income \$'000	Net Effect on Equity \$'000	Change in basis points JMD/USD	Net Effect on Income \$'000	Net Effect on Equity \$'000
-100/-100	100,262	444,930	-100/-50	25,183	186,831
+100/100	(100,263)	(387,944)	+100/50	(25,183)	(155,317)

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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## 3. Financial Risk Management (Continued)

### (d) Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the statement of financial position, are:

- (i) To comply with the capital requirements set by the regulators of the markets within which the Bank operates;
- (ii) To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- (iii) To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by management and bi-monthly by the Board. The required information is filed with the Bank of Jamaica on a quarterly basis.

The Bank of Jamaica requires the Bank to:

- (i) Hold the minimum level of the regulatory capital as a percentage of total assets of 8% (2017 – 8%); and
- (ii) Maintain a ratio of total regulatory capital to the risk-weighted assets at or above 10% (2017 – 10%).

The Bank's regulatory capital is managed by the ALCO and is divided into two tiers:

- (i) Tier 1 capital: share capital, statutory reserve fund, retained earnings reserve fund, accumulated losses and net loss positions arising from fair value accounting; and
- (ii) Tier 2 capital: general provisions for loan losses on assets limited to 1.25% of risk-weighted assets.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of, and reflecting an estimate, of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank complied with all of the externally imposed capital requirements to which it is subject.

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

## 3. Financial Risk Management (Continued)

### (e) Fair value estimation

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The following tables provide an analysis of financial instruments held as at 31 December 2018 that, subsequent to initial recognition, are measured at fair value. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair value is observable, as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical instruments;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the instrument, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the instrument that are not based on observable market data (unobservable inputs).

	<b>Level 2</b>
	<b>\$'000</b>
<b>2018</b>	
Investment securities at fair value through other comprehensive income –	
Issued by the Government of Jamaica	5,262,370
Issued by other governments	430,355
Corporate bonds	2,177,106
Certificates of deposit issued by Bank of Jamaica	7,869,831
	<u>15,739,662</u>
<b>2017</b>	
Available-for-sale investment securities –	
Issued by the Government of Jamaica	7,119,491
Issued by other governments	457,284
Corporate bonds	5,690,834
Certificates of deposit issued by Bank of Jamaica	4,538,500
Securities purchased under resale agreements (Note 6)	264,784
	<u>18,070,893</u>

There were no transfers between levels during the year.

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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## 3. Financial Risk Management (Continued)

### (e) Fair value estimation (continued)

The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets is the current bid price. These instruments are included in Level 1. The Bank did not hold any of these instruments at the date of the statement of financial position.

The fair value of financial instruments not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. This category includes certificates of deposit and bonds issued by the Government of Jamaica, indicative prices of which are obtained from regular, publicly available quotes by reputable dealers and brokers.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. This category includes certain corporate debt securities, the fair values of which are determined based on the prices of recent redemptions of the bonds.

The following methods and assumptions have been used in determining the fair values of financial instruments that are not remeasured at fair value after initial recognition:

- Quoted market prices or dealer quotes for similar instruments. If quoted prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques, such as discounted cash flow analysis.
- The fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities.
- The fair value of variable rate financial instruments issued at market terms is assumed to approximate their carrying amounts.
- The carrying values of non-current borrowings from non-related parties approximate their fair values, as these loans are carried at amortised cost reflecting their contractual obligations and the interest rates are reflective of current market rates for similar transactions.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

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### 4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The preparation of the financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies. The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

#### *Measurement of the expected credit loss allowance (applicable from 1 January 2018)*

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring the ECL is further detailed in note 3(a), which also sets out key sensitivities of the ECL to changes in these elements. A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate assumptions for the measurement of ECL;
- Developing a range of unbiased future economic scenarios and relative weightings;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Determining the relevant period of exposure to credit risk when measuring ECL for credit cards and revolving credit facilities.

Information about the judgments and estimates made by the Bank in the above areas is set out in note 3(a).

#### *Impairment losses on loans (applicable prior to 1 January 2018)*

The Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

#### *Other post-employment benefits*

The cost of these benefits and the present value of the other post-employment liabilities depend on a number of factors that are to be determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost or income for other post-employment benefits include, the discount rate and, in the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost or income recorded for other post-employment benefits. The Bank determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the other post-employment benefit obligations. In determining the appropriate discount rate, the Bank considered the interest rates of government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The expected rate of increase of medical costs has been determined by comparing historical relationship of the actual medical cost increases with the rate of inflation in the respective economy. Other key assumptions for the other post-employment benefits costs and credits are based in part on current market conditions.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

#### 4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

##### *Fair value of financial instruments*

In the absence of quoted market prices, the fair value of a significant proportion of the Bank's financial instruments was determined using generally accepted alternative methods. The values derived from applying these methods are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. Considerable judgement is required in interpreting market data to arrive at estimates of fair values. Consequently, the estimates arrived at may be significantly different from the actual price of the instruments in an arm's length transaction.

##### *Income taxes*

Significant judgement is required in determining the provision for income taxes. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The Bank also recognises deferred tax assets on tax losses carried forward as it anticipates making future taxable income to offset these losses.

#### 5. Cash and Bank Balances

	2018 \$'000	2017 \$'000
Notes and coins	617,984	392,489
Accounts with other banks	792,645	444,311
Balances with the Bank of Jamaica, other than statutory reserves	<u>676,647</u>	<u>655,685</u>
Included in cash and cash equivalents	2,087,276	1,492,485
Statutory reserves with the Bank of Jamaica	5,094,940	5,338,710
Cash held as collateral and other restricted cash accounts	<u>241,048</u>	<u>239,375</u>
	<u><u>7,423,264</u></u>	<u><u>7,070,570</u></u>

Statutory reserves with the Bank of Jamaica are held in compliance with Section 43 of the Banking Services Act, 2014 (formerly Banking Act, 1992), which requires that every licensee maintains a cash reserve with the Bank of Jamaica. A prescribed minimum of 26% (2017- 26%) of Jamaica dollar currency deposits liabilities and 29% (2017- 26%) of foreign currency deposit liabilities is required to be maintained as cash reserves by the bank in liquid assets of which 12% (2017 – 12%) must be maintained as cash reserves for Jamaican dollar currency and 15% (2017 – 12%) for foreign currency cash reserves. No portion of the cash reserve is available for investment, lending or other use by the Bank.

#### 6. Securities Purchased under Resale Agreements

The Bank enters into reverse repurchase agreement collateralised by government of Jamaica securities and Bank of Jamaica certificates of deposits. These agreements may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil its contractual obligations. The balance in the statement of financial position includes interest receivable of \$Nil (2017- \$2,632,000).



# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 7. Loans and Advances, Net of Provision for Credit Losses

	2018 \$'000	2017 \$'000
Gross loans	26,260,630	26,901,463
Less: Provision for credit losses	<u>(934,643)</u>	<u>(633,348)</u>
	25,325,987	26,268,115
Interest receivable	<u>130,018</u>	<u>212,462</u>
	<u>25,456,005</u>	<u>26,480,577</u>

The current portion of loans amounted to \$3,690,052,000 (2017 – \$4,935,300,000). Provision for credit losses include loan commitments of \$9,439,000 (2017- \$Nil).

The aggregate amount of non-performing loans on which interest was not being accrued amounted to \$1,294,678, 000 (2017 – \$1,578,300,000).

	2018 \$'000	2017 \$'000
Provision for credit losses on loans and advances - IFRS	925,204	633,348
Provision for credit losses on loans and advances - Bank of Jamaica		
Specific provisions	1,231,137	1,008,050
General provision	250,099	253,569
	<u>1,481,236</u>	<u>1,261,619</u>
Excess of regulatory provision over IFRS provision	<u>556,032</u>	<u>628,271</u>

The excess of the regulatory provision over the IFRS provision is included in a non-distributable loan loss reserve and treated as an appropriation of retained earnings (Note 21).

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 8. Investment Securities and Pledged Assets

	2018 \$'000	2017 \$'000
At amortised cost:		
Issued by the Government of Jamaica –		
Benchmark investment notes	2,402,116	-
Bank of Jamaica Certificates of Deposits	4,001,713	-
Corporate bonds	6,019,365	-
	<u>12,423,194</u>	-
At fair value through other comprehensive income:		
Issued by the Government of Jamaica –		
Global bonds	5,134,217	-
Issued by other governments	411,913	-
Corporate bonds	2,100,543	-
Unquoted equity	5,020	-
	<u>7,651,693</u>	-
Available-for-sale debt securities, at fair value:		
Issued by the Government of Jamaica –		
Global bonds	-	4,139,984
Benchmark investment notes	-	2,845,604
		6,985,589
Bank of Jamaica Certificates of Deposits	-	4,489,048
Issued by other governments	-	439,104
Corporate bonds	-	5,584,937
	<u>20,074,887</u>	<u>17,498,678</u>
Unquoted equity	-	5,020
Interest receivable	<u>319,012</u>	<u>307,431</u>
	20,393,899	17,811,128
Less: Pledged assets	<u>(9,931,362)</u>	<u>(4,927,305)</u>
	<u>10,462,537</u>	<u>12,883,824</u>

The current portion of investment securities amounted to \$6,596,954,000 (2017 – \$6,446,122,000).

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

## 9. Property, Plant and Equipment

	Leasehold Improvements	Computer Equipment	Equipment, Furniture and Fixtures	Motor Vehicles	Work-in- progress	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost -</b>						
1 January 2017	436,895	451,225	322,221	32,375	44,354	1,287,070
Additions	47,879	31,293	56,371	-	84,868	220,411
Transfers	10,116	35,737	5,319	-	(51,172)	-
Disposals	-	(306)	(525)	(8,000)	-	(8,831)
31 December 2017	494,890	517,949	383,386	24,375	78,050	1,498,650
Additions	17,886	17,985	17,709	-	27,109	80,689
Transfer to intangible assets (Note 10)	-	-	-	-	(14,213)	(14,213)
Transfers	8,048	15,333	17,418	-	(40,799)	-
31 December 2018	520,824	551,267	418,513	24,375	50,147	1,565,126
<b>Depreciation -</b>						
1 January 2017	191,790	254,339	145,494	17,209	-	608,832
Charge for year	38,890	65,124	29,506	2,232	-	135,752
Disposals	-	(148)	(451)	(1,467)	-	(2,066)
31 December 2017	230,680	319,315	174,549	17,974	-	742,518
Charge for year	43,733	78,254	34,873	2,232	-	159,092
31 December 2018	274,413	397,569	209,422	20,206	-	901,610
<b>Net Book Value -</b>						
31 December 2018	246,411	153,698	209,091	4,169	50,147	663,516
31 December 2017	264,210	198,634	208,837	6,401	78,050	756,132

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 10. Intangible Assets

	Total \$'000
Cost -	
1 January 2017	1,143,315
Additions	30,618
Write off	<u>(20,000)</u>
31 December 2017	1,153,933
Additions	37,312
Transfer from Property Plant and Equipment (Note 9)	<u>14,213</u>
31 December 2018	1,205,458
Amortisation -	
1 January 2017	728,359
Amortisation charge for the year	<u>158,442</u>
31 December 2017	886,801
Amortisation charge for year	<u>149,289</u>
31 December 2018	<u>1,036,090</u>
Net Book Value -	
31 December 2018	<u>169,368</u>
31 December 2017	<u>267,132</u>

Included in the balance at 31 December 2018 is software with a value of \$92,578,000 (2017 - \$64,739,000) which is in development. These amounts are not yet available for use and have not been amortised. The estimated date of completion is 31 May 2019.

### 11. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 33½%. The movement in the deferred income tax balance was as follows:

	2018 \$'000	2017 \$'000
At beginning of year	274,262	322,655
Effects of adopting new standards (Note 34)	190,754	-
Deferred tax charged in statement of comprehensive income (Note 28)	(21,772)	(15,019)
Deferred tax credited/(charged) to other comprehensive income	<u>163,631</u>	<u>(33,374)</u>
At end of year	<u>606,875</u>	<u>274,262</u>

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 11. Deferred Income Taxes (Continued)

Deferred tax recognised in the statement of financial position was attributable to the following temporary differences:

	2018 \$'000	2017 \$'000
Tax losses carried forward	287,133	267,954
Post-employment benefits	127,685	102,080
Differences between IFRS and BOJ specific provisions for loan losses	(101,978)	(124,901)
Accelerated tax depreciation	134,995	87,456
Revaluation of investment securities	80,155	(64,470)
Impairment on investment securities	63,935	-
Other	14,950	6,143
	<u>606,875</u>	<u>274,262</u>

Deferred tax assets include \$20,883,000 (2017 – \$59,370,000) which is expected to be recovered within 12 months.

Deferred tax assets have been recognised on tax losses carried forward as the Bank is projected to make sufficient profits to utilise these tax losses. Subject to agreement with Tax Administration Jamaica, losses available for offset against future profits amount to \$861,398,000 (2017 – \$803,861,000).

The deferred tax charged in the statement of comprehensive income is attributable to the following temporary differences:

	2018 \$'000	2017 \$'000
Tax losses carried forward	19,179	(47,372)
Post-employment benefits	3	21,434
Differences between IFRS and BOJ specific provisions for loan losses	(101,976)	2,491
Accelerated tax depreciation	47,538	17,580
Other	13,484	(9,152)
	<u>(21,772)</u>	<u>(15,019)</u>

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 11. Deferred Income Taxes (Continued)

The deferred tax credited/(charged) to other comprehensive income is attributable to the following temporary differences:

	2018 \$'000	2017 \$'000
Realised losses on FVOCI (2017 - available-for-sale investments)	38,967	69,807
Unrealised losses/(gains) on FVOCI (2017 -available-for-sale investments)	99,062	(100,725)
Re-measurements of post-employment benefits	25,602	(2,456)
	<u>163,631</u>	<u>(33,374)</u>

### 12. Other Assets

	2018 \$'000	2017 \$'000
Withholding tax recoverable	57,439	68,600
Due from fellow subsidiaries	160,232	16,808
Prepayments and deposits	114,891	99,453
Settlement recoverable	-	29,391
Bond redemption proceeds receivable	-	533,433
Commissions receivable	17,547	22,524
Other	66,641	61,547
	<u>416,750</u>	<u>831,756</u>

Total balance falls due within 12 months of the year end.

#### Settlement recoverable

This amount represented foreign currency spot transactions as at 31 December 2017 which was subsequently settled in January 2018.

#### Bond redemption proceeds receivable

In July 2017, the Bank notified the Government of Jamaica of its intention to exercise the put option on the GOJ FR Investment Note due 2024 for 100% of its principal holdings outstanding; the notice given was irrevocable as of August 22, 2017. The carrying value of the note of \$533,433,000 was transferred from investment securities and included as a receivable. This amount was received in February 2018.

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

## 13. Customer Deposits

The customer deposit portfolio was comprised as follows:

	Number of deposits		Value of deposits	
	2018	2017	2018 \$'000	2017 \$'000
Financial institutions	252	272	6,937,676	6,232,514
Commercial and business enterprises	4,267	4,018	12,770,856	11,758,518
Personal	35,614	29,086	11,201,388	10,747,486
Other	570	592	6,655,943	7,852,058
	<u>40,703</u>	<u>33,968</u>	<u>37,565,863</u>	<u>36,590,576</u>
Interest payable			90,848	125,420
			<u>37,656,711</u>	<u>36,715,996</u>

The non-current portion of customer deposits amounted to \$21,834,000 (2017 – \$7,368,000).

## 14. Short-term Loans

	2018 \$'000	2017 \$'000
Loans with original maturities of 90 days or less –		
National Commercial Bank Jamaica Limited	-	360,482
Sagicor Bank Jamaica Limited	-	500,000
Citibank N.A.	253,610	310,760
	<u>253,610</u>	<u>1,171,242</u>
Interest payable	18	317
Included in cash and cash equivalents	<u>253,628</u>	<u>1,171,559</u>

The short-term loan facility in current year matured in January 2019 and represents a United States currency facility at 2.6%.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 15. Other Borrowed Funds

These loans are provided primarily for the purpose of on-lending to customers who meet certain requirements and are to be used for eligible enterprises and projects. The balance at year end was comprised as follows:

	2018 \$'000	2017 \$'000
Development Bank of Jamaica Limited	1,194,551	1,125,380
Interest payable	<u>907</u>	<u>789</u>
	<u>1,195,458</u>	<u>1,126,169</u>

The current portion of other borrowed funds was \$277,051,000 (2017 – \$263,007,000).

The loans are granted in both Jamaican and United States Dollars and are utilised by the Bank to finance customers with viable projects in the productive sectors of the economy. These loans have maturity dates ranging from February 2019 to March 2029 and attract interest at rates ranging from 4% – 7%.

The carrying amounts of the Bank's borrowings are denominated in the following currencies:

	2018 \$'000	2017 \$'000
US dollar	398,364	283,462
Jamaican dollar	<u>797,094</u>	<u>842,707</u>
	<u>1,195,458</u>	<u>1,126,169</u>

The Bank has no undrawn borrowing facilities.

### 16. Pensions and Post-Employment Benefit Obligations

The Bank participates in a defined contribution pension scheme started by the ultimate parent company. The scheme is open to employees hired on or after 1 April 2010. Employees contribute 5% of pensionable earnings with the option to contribute an additional 5%. The employer's contributions are currently set at 10%. The Bank's contribution for the year was \$71,561,000 (2017 - \$66,999,000).

The Bank also participates in a defined benefit pension plan operated by the ultimate parent company. The plan, which commenced on 1 January 1975, is funded by employees' contributions at 5% of salary with the option to contribute an additional 5%, and employer's contributions at 0.2%, as recommended by independent actuaries. Pension at normal post-employment age is based on 2% per year of pensionable service of the average of the highest three years' annual salary during the last ten years of service. This scheme was closed to new members as at 31 March 2010.

Prior to 2014, the parent company had a stated policy of charging the net defined benefit cost of the plan as a whole to individual participating subsidiaries. At each valuation date, sufficient plan assets were allocated to each participating subsidiary to at least cover its obligations under the plan. In 2014, the ultimate parent company assumed the defined benefit pension obligations of all companies within the Group participating in this scheme. As a result the ultimate parent company recognises the total pension assets and obligations in respect of this plan. The obligation of the Bank is limited to the regular monthly pension contributions.



# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 16. Pensions and Post-Employment Benefit Obligations (Continued)

The Board of Trustees of the pension fund is comprised of representatives from both the employer and members of the plan. The Board of Trustees of the pension fund is required by law to act in the interest of the fund and all relevant stakeholders. The Board of Trustees of the pension fund is responsible for the investment policy with regard to the assets of the fund. The funds are managed by Proven Fund Managers Limited.

The Bank also participates in a number of other post-employment benefit plans, including group-life, insured and self-insured health care, gratuity and other supplementary plans. These plans are not funded.

The defined benefit plans are valued annually on 31 December by independent actuaries.

The amounts recognised in the statement of financial position in relation to other post-employment obligations were determined as follows:

	2018 \$'000	2017 \$'000
Present value of unfunded obligations	<u>(383,054)</u>	<u>(306,239)</u>

The amounts recognised in arriving at net profit or loss were as follows:

	2018 \$'000	2017 \$'000
Current service cost	58,262	43,299
Interest cost on obligation	24,429	22,371
Past service costs	(25,977)	-
Curtailment	(54,271)	-
Adjustment to Plan Assets	-	304
Total, included in staff costs (Note 26)	<u>2,443</u>	<u>65,974</u>

The amounts recognised in other comprehensive income are as follows:

	2018 \$'000	2017 \$'000
Re-measurements of post-employment benefit obligations	<u>76,807</u>	<u>7,368</u>

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 16. Pensions and Post-Employment Benefit Obligations (Continued)

The movement in the present value of unfunded obligations was as follows:

	Other post-employment benefits	
	2018 \$'000	2017 \$'000
Balance at start of year	306,239	249,304
Current service cost	58,262	43,299
Interest cost	24,429	22,371
Benefits paid	(2,435)	(1,672)
Past service cost vested	(25,977)	304
Curtailment	(54,271)	-
Re-measurements:		
Losses/ (gains) from changes in demographic assumptions	17,212	(3,195)
Losses from changes in financial assumptions	56,133	18,433
Experience losses/ (gains)	3,462	(22,605)
Balance at end of year	<u>383,054</u>	<u>306,239</u>

The composition of the liability recognised in relation to the other post-employment benefit obligations in the statement of financial position is as follows:

	2018 \$'000	2017 \$'000
Gratuity Plan	22,013	24,648
Group Life Plan	114,711	93,551
Insured Group Health	224,791	168,843
Self-Insured Health Plan	21,539	19,197
Liability in the statement of financial position	<u>383,054</u>	<u>306,239</u>

The principal actuarial assumptions used were as follows:

	2018	2017
Discount rate	7.00%	8.00%
Long term inflation rate	5.00%	5.00%
Future salary increases	6.00%	6.00%
Future pension increases	5.00%	5.00%
Medical claims growth	<u>6.00%</u>	<u>6.50%</u>

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 16. Pensions and Post-Employment Benefit Obligations (Continued)

The average life expectancy in years of a pensioners retiring at age 60 on the statement of financial position date is as follows:

	2018	2017
Male	27.38	27.31
Female	<u>28.25</u>	<u>28.21</u>

Mortality assumptions are based on the American 1994 Group Annuitant Mortality (GAM94) table.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The sensitivity of the post-employment medical benefits to changes in the principal assumptions is:

	<u>Impact on other employee benefit obligations</u>		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
		\$'000	\$'000
Discount rate	1%	54,515	(76,399)
Medical inflation rate	1%	<u>(76,399)</u>	<u>55,391</u>

#### ***Risks associated with other post-employment obligations***

Through its defined benefit pension plans and post-employment medical plans, the Bank is exposed to a number of risks, the most significant of which are detailed below:

#### **Changes in bond yields**

A decrease in Government of Jamaica bond yields will increase plan liabilities.

#### **Inflation risk**

Higher inflation will lead to higher liabilities in the event that discretionary pension increases are granted.

#### **Life expectancy**

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant, where inflationary increases result in higher sensitivity to changes in life expectancy.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

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### 16. Pensions and Post-Employment Benefit Obligations (Continued)

The Board of Trustees is ultimately responsible for the establishment and oversight of the plan's risk management framework. The Trustees have established an Investment Committee for managing and monitoring the overall risk management process, as well as implementing policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. The Committee is responsible for the formulating and monitoring of investment portfolios and investment strategies for the plan. The Committee is also responsible for the approval and monitoring of appropriate trading limits, reports and compliance controls to ensure that the mandate is properly followed.

Funding levels are monitored on an annual basis and the current agreed contribution rate is 5% of pensionable salaries with the option to contribute an additional 5%. The next triennial valuation is due to be completed as at 31 December 2019. The Bank considers that the contribution rates set at the last valuation date to be sufficient to prevent a deficit and that regular contributions, which are based on service costs, will not increase significantly.

The average duration of the post-employment benefit obligation is as follows:

	<b>Years</b>
Gratuity Plan	14.2
Group Life Plan	29.3
Insured Group Health Plan	27.6
Self-insured Health Plan	19.8
Superannuation Plan	N/A

### 17. Other Liabilities

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Due to fellow subsidiaries	67,632	16,908
Settlement payable	-	29,363
Credit card loyalty scheme	215,871	87,613
Staff vacation and bonus accruals	116,641	187,929
Trade payables	22,918	77,006
Corporate tax payable	14,855	64,855
Withholding tax payable	15,795	22,114
Other accruals	193,342	199,192
	<u>647,054</u>	<u>684,980</u>

Total balance falls due within 12 months of the year end.

#### Settlement payable

This amount represents foreign currency spot transactions as at the year-end which was subsequently paid after the year end.

# First Global Bank Limited

## Notes to the Financial Statements

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### 18. Share Capital

	2018 \$'000	2017 \$'000
Authorised –		
629,482,500 ordinary shares		
102,500 non-redeemable convertible preference shares		
Issued and fully paid –		
628,670,000 (2017 – 628,670,000) ordinary shares of no par value	2,377,685	2,377,685
102,500 (2017 – 102,500) non-redeemable convertible preference shares	1,186,496	1,186,496
	<u>3,564,181</u>	<u>3,564,181</u>

#### **Convertible preference shares**

In April 2009, the Bank issued 100,000 5.5% non-voting, non-redeemable, non-cumulative, convertible preference shares to International Finance Corporation (IFC) for a cash consideration of US\$10 million. These shares are each convertible into 1,536.55 ordinary shares. After their third anniversary of ownership by IFC, these preference shares are convertible to ordinary shares at IFC's option under certain conditions. The shares may, however, be converted at any time if they are owned by a member of the GraceKennedy Group. If there is a change in control of the Bank as defined by the agreement, the shares will be immediately converted into ordinary shares.

On 2 July 2014, all the preference shares previously held by the IFC in the Bank were sold to First Global Holdings Limited (FGH) and all beneficial titles to the shares were transferred to FGH, free and clear of any liens or encumbrances.

Declaration of dividends on these preference shares is at the discretion of, and requires approval from, the Bank's Board of Directors. Such declarations are possible only if there are available distributable profits, as defined by the agreement. Dividends on ordinary shares are subordinate to dividends on these preference shares. Additionally, the preference shareholders are not entitled to further distributions.

In the event of liquidation, preference shareholders are entitled to the aggregate paid-up share subscription price, as defined by the agreement, plus accrued and unpaid preferred dividends after all debt obligations have been met. These preference shareholders have priority over the ordinary shareholders, subject to the availability of adequate net assets.

In November 2015, the Bank issued 2,500 5.5% non-voting, non-redeemable, non-cumulative Preference Shares to GraceKennedy (St. Lucia) Limited for a cash consideration of USD \$2.5 million. The shares are convertible only into ordinary shares and the conversion of the preference shares held by GraceKennedy (St. Lucia) Limited shall be subject to the mutual agreement in writing of the Bank and holder of the shares.

### 19. Statutory Reserve Fund

This fund is maintained in accordance with Section 8 of the Banking Act which requires that a minimum of 15% of the net profits, as defined by the Act, of the Bank be transferred to the reserve fund until the amount of the fund is equal to 50% of the paid-up capital of the Bank and thereafter 10% of the net profits until the amount of the fund is equal to the paid-up capital of the Bank. During the year the Bank transferred \$76,600,000 (2017 - \$71,902,000) to this reserve.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

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### 20. Fair Value Reserve

This represents the net unrealised losses on the revaluation of investment securities amounting to \$158,748,000 (2017 – gains of \$193,410,000), and is shown net of attributable deferred taxation of \$80,155,000 (2017 – \$64,470,000).

### 21. Loan Loss Reserve

This is a non-distributable reserve representing the excess of the provision for credit losses determined using the Bank of Jamaica's regulatory requirements over the amount determined under IFRS (Note 7).

### 22. Retained Earnings Reserve

The Banking Services Act 2014 (formerly Banking Act, 1992) permits the transfer of any portion of the Bank's net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers. The deposit liabilities of the Bank and other indebtedness for borrowed money together with all interest accrued should not exceed twenty-five times its capital base.

### 23. Interest Income on Securities

	2018 \$'000	2017 \$'000
Interest income was earned on –		
Investments classified as amortised cost	647,342	-
Investments classified as fair value through other comprehensive income	296,695	-
Investments classified as available-for-sale	-	1,142,512
Securities purchased under resale agreements	8,304	5,849
	<u>952,341</u>	<u>1,148,361</u>

### 24. Fee and Commission Income

	2018 \$'000	2017 \$'000
Credit related	466,076	528,534
Retail banking	201,015	215,262
Other	221,340	322,985
	<u>888,431</u>	<u>1,066,781</u>

Refer to Note 3 (a) for the effects arising from the adoption of IFRS 15.

### 25. Gains on Investment Activities, Net

	2018 \$'000	2017 \$'000
Gains on sale of investments classified as fair value through other comprehensive income	120,192	-
Gains on sale of investments classified as available-for-sale	-	175,402
Losses on revaluation of put option	2,712	-
	<u>122,904</u>	<u>175,402</u>

# First Global Bank Limited

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### 26. Staff Costs

	2018 \$'000	2017 \$'000
Wages and salaries	1,361,269	1,424,783
Statutory contributions	117,889	117,508
Defined contribution scheme	71,561	66,999
Other post-employment benefit obligations (Note 16)	2,443	65,974
Other	166,971	160,572
	<u>1,720,133</u>	<u>1,835,836</u>

### 27. Administration and Other Expenses

	2018 \$'000	2017 \$'000
Advertising and publicity	84,275	124,819
Asset tax	119,210	127,929
Auditors' remuneration	11,280	9,491
Bank charges	49,343	41,184
Computer expenses	240,571	214,700
Credit card expenses	130,494	110,674
Directors' emoluments	11,705	10,153
Fees and charges (Note 3(a))	10,557	109,248
Royalties	120,973	130,560
Group expenses	288,391	271,842
Insurance and licensing	87,974	77,793
Irrecoverable General Consumption Tax	86,782	79,019
Postage and courier	26,535	24,335
Professional fees	49,836	61,066
Rental and maintenance	184,771	180,163
Telephone and data	55,273	52,053
Other property cost, and utilities	89,838	84,099
Stationery	16,855	14,530
Other	131,752	144,726
	<u>1,796,415</u>	<u>1,868,384</u>

Group expenses incurred relate to royalties and management fees paid to its parent and ultimate parent company.

# First Global Bank Limited

Notes to the Financial Statements

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## 28. Taxation

Taxation is based on profit for the year adjusted for taxation purposes and comprises:

	2018 \$'000	2017 \$'000
Current income tax	61	49,940
Deferred income tax (Note 11)	21,772	15,019
	<u>21,833</u>	<u>64,959</u>

The tax on the profit before tax differs from the theoretical amount that would arise using the basic statutory rate of 33½% as follows:

	2018 \$'000	2017 \$'000
Profit before taxation	<u>532,500</u>	<u>533,445</u>
Tax calculated at a tax rate of 33½%	177,500	177,815
Adjusted for the effects of –		
Prior year adjustments (a)	(52,038)	-
Tax free income	(115,171)	(145,734)
Preference dividends	(29,531)	(29,438)
Asset tax	39,737	42,643
Sundry items	1,336	19,673
	<u>21,833</u>	<u>64,959</u>

(a) These relate to the opening adjustments arising from the adoption of IFRS 15 and IFRS 9.

The tax credited relating to components of other comprehensive income is as follows:

	2018		
	Before tax	Tax charge	After tax
	\$'000	\$'000	\$'000
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Realised gains on investments at fair value through other comprehensive income	(136,375)	38,967	(97,408)
Unrealised losses on investments at fair value through other comprehensive income	(281,228)	99,062	(182,166)
<i>Item that will not be reclassified to profit or loss:</i>			
Re-measurements of post-employment benefit obligations	(76,807)	25,602	(51,205)
	<u>(494,410)</u>	<u>163,631</u>	<u>(330,779)</u>



# First Global Bank Limited

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### 28. Taxation (Continued)

The tax (charged)/credited relating to components of other comprehensive income is as follows (continued):

	2017		
	Before tax	Tax charge/ (credit)	After tax
	\$'000	\$'000	\$'000
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Realised gains on available-for-sale investments	(209,422)	69,807	(139,615)
Unrealised gains on available-for-sale investments	302,175	(100,725)	201,450
<i>Item that will not be reclassified to profit or loss:</i>			
Re-measurements of employment benefit obligations	7,368	(2,456)	4,912
	<u>100,121</u>	<u>(33,374)</u>	<u>66,747</u>

### 29. Related Party Transactions and Balances

- (a) The statement of financial position includes balances, in the ordinary course of business, with the ultimate parent company, fellow subsidiaries, key management personnel (directors and senior executives) and other related parties as follows:

	2018 \$'000	2017 \$'000
Loans and leases-		
Ultimate parent company	17,576	18,052
Fellow subsidiaries	58,723	42,019
Key management personnel	75,831	58,206
Other related entities	56,967	39,789
	<u>209,097</u>	<u>158,066</u>
Loans to key management personnel and other related entities -		
Balance as at 1 January	158,066	97,768
Loans advanced	537,405	190,713
Loan repayments received	(488,491)	(130,857)
Interest charged	9,254	12,993
Interest received	(7,137)	(12,551)
Balance as at 31 December	<u>209,097</u>	<u>158,066</u>

The loans to key management personnel attract interest rates ranging between 3% - 18% and are repayable in the years 2019 – 2034. These loans are secured and are made on terms similar to those offered to other employees.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

### 29. Related Party Transactions and Balances (Continued)

	2018 \$'000	2017 \$'000
Other assets –		
Fellow subsidiaries	<u>160,232</u>	<u>16,808</u>
Customer deposits –		
Ultimate parent company	1,203,537	496,155
Fellow subsidiaries	2,051,505	2,689,318
Key management personnel	75,831	152,586
Other related entities	<u>527,816</u>	<u>883,704</u>
	<u>3,858,689</u>	<u>4,221,763</u>
Other liabilities –		
Fellow subsidiaries	<u>67,632</u>	<u>16,908</u>

- (b) The statement of comprehensive income includes transactions, in the ordinary course of business, with the ultimate parent company, fellow subsidiaries, key management personnel (directors and senior executives) and other related parties as follows:

	2018 \$'000	2017 \$'000
Interest earned on loans and leases –		
Ultimate parent company	596	1,655
Fellow subsidiaries	1,647	3,940
Key management personnel	3,203	2,698
Other related entities	<u>3,808</u>	<u>4,700</u>
	<u>9,254</u>	<u>12,993</u>
Interest earned on deposits and other accounts –		
Ultimate parent company	1,206	1,318
Fellow subsidiaries	25,191	19,418
Key management personnel	62	187
Other related entities	<u>281</u>	<u>2,626</u>
	<u>26,740</u>	<u>23,549</u>

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

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### 29. Related Party Transactions and Balances (Continued)

	2018 \$'000	2017 \$'000
Interest incurred on customer deposits –		
Ultimate parent company	12,934	24,060
Fellow subsidiaries	42,172	38,248
Key management personnel	413	6,442
Other related entities	11,221	30,687
	<u>66,740</u>	<u>99,437</u>
Staff costs – key management personnel		
Directors	47,459	41,804
Senior executives	160,570	160,443
	<u>208,029</u>	<u>202,247</u>
Administration and other expenses –		
Ultimate parent company	227,524	269,411
Fellow subsidiaries	202,448	159,126
Directors' fees	11,705	8,091
	<u>441,677</u>	<u>436,628</u>

Other related entities primarily represent entities which are under the control of directors of the Bank.

### 30. Reconciliation of Liabilities arising from Financial Activities

The table below details changes in the Bank's liabilities arising from financing activities, including both cash and non-cash. Financing activities represent bank and other loans, excluding bank overdrafts and amounts included as cash and cash equivalents:

	2018 \$'000	2017 \$'000
<b>At 1 January</b>	1,126,168	1,557,563
Loans received	672,669	184,881
Cash movements -		
Repayment- principal	(607,540)	(599,638)
Repayment- interest	(67,642)	(74,701)
Non-cash movements -		
Foreign exchange adjustments	4,042	(17,426)
Other	67,761	75,490
<b>At 31 December</b>	<u>1,195,458</u>	<u>1,126,169</u>

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

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## 31. Commitments and Contingent Liabilities

### *Operating lease commitments*

Future lease payments under operating lease commitments are payable in the year ending:

	2018 \$'000
2019	117,314
2020	73,847
2021 and beyond	195,964
	<u>387,126</u>

### *Loan commitments*

Loans approved but not disbursed at year end amounted to \$539,114,000 (2017 – \$1,443,956,000).

### *Contingent liabilities*

Guarantees and letters of credit for which the Bank has an indirect obligation at year end amounted to \$242,112,000 (2017 - \$267,678,000).

## 32. Litigation, Claims and Assessments

The Bank is subject to various claims, disputes and legal proceedings, as part of the normal course of business. Provision is made for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Bank, and the amount can be reasonably estimated.

In respect of claims asserted against the Bank, according to the principles outlined above, which have not been provided for, management is of the opinion that such claims are either without merit, can be successfully defended or will result in exposure to the Bank which is immaterial to both its financial position and results of operations.

## 33. Subsequent Event

The Bank of Jamaica announced the following changes to the Cash Reserves and Liquid Assets Ratios which took effect on 1 March 2019:

- (i) The cash reserves requirement of commercial banks with respect to local currency prescribed liabilities will be reduced by three percentage points to nine percent (9%). The cash reserves requirement with respect to foreign currency prescribed liabilities will remain unchanged at fifteen per cent (15%).
- (ii) The liquid assets ratio applicable to local currency prescribed liabilities will be reduced by three percentage points to twenty-three per cent (23%), while the liquid assets ratio applicable to foreign currency prescribed liabilities will remain unchanged at twenty-nine per cent (29%).

These changes will have the effect of reducing the cost of funds for the Bank.

# First Global Bank Limited

## Notes to the Financial Statements

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### 34. Adoption of New Accounting Standards

New accounting standards have been applied from 1 January 2018 and the financial statements of the Bank have been restated as of that date to reflect the effect arising from the adoption of IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers'.

As noted in the accounting policies for the new standards, the transition provisions applied by the Bank do not require comparative figures to be restated. The total impact of adoption is therefore recognised in the opening statement of financial position on 1 January 2018 as shown in tables below.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have either not been included or are shown in aggregate. The adjustments are explained in more detail below.

	31 December 2017 As originally presented \$'000	Effects of IFRS 9 and 15 \$'000	1 January 2018 As restated \$'000
<b>Assets</b>			
Loans and advances, net of provisions for credit losses	26,480,577	(413,747)	26,066,830
Investment securities and pledged assets	17,811,129	(112,333)	17,698,796
Deferred tax assets	274,262	190,754	465,016
Guarantees, letters of credit and letters of undertaking	515,569	(8,831)	506,738
Other assets unaffected by adoption of new standards	9,404,591	-	9,404,591
<b>Total Assets</b>	<b>54,486,128</b>	<b>(344,157)</b>	<b>54,141,971</b>
<b>Liabilities</b>			
Other liabilities	684,980	120,995	805,975
Other liabilities unaffected by adoption of new standards	45,989,605	-	45,989,605
<b>Total Liabilities</b>	<b>46,674,585</b>	<b>120,995</b>	<b>46,795,580</b>
<b>EQUITY</b>			
<b>Capital &amp; Reserves</b>			
Fair value reserve	128,940	72,041	200,981
Loan loss reserve	628,271	(387,459)	240,812
Retained earnings	435,687	(149,734)	285,953
Share capital and other reserves	6,618,645	-	6,618,645
<b>Total Equity</b>	<b>7,811,543</b>	<b>(465,152)</b>	<b>7,346,391</b>
<b>Total Equity and Liabilities</b>	<b>54,486,128</b>	<b>(344,157)</b>	<b>54,141,971</b>

# First Global Bank Limited

Notes to the Financial Statements

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

## 34. Adoption of New Accounting Standards (Continued)

	Loan Loss Reserve \$'000	Fair Value Reserve \$'000	Retained Earnings \$'000
Closing equity components at 31 December 2017 – IAS 39/IAS 18	628,271	128,940	435,687
IFRS 9 Impact -			
Increase in provision for loans receivable	-	-	(413,747)
Increase in provision for guarantees	-	-	(8,831)
Increase in provision for debt securities at amortised cost	-	-	(92,545)
Increase in provision for debt securities at FVOCI	-	85,233	(85,233)
Increase in deferred tax assets relating to impairment	-	-	184,158
Reclassify investments from AFS to amortised cost	-	(19,788)	-
Decrease in deferred tax liabilities relating to reclassification of investments from AFS to amortised cost	-	6,596	-
Transfer from loan loss reserve	(387,459)	-	387,459
	<u>(387,459)</u>	<u>72,041</u>	<u>(28,739)</u>
IFRS 15 Impact -			
Recognition of liability for customer loyalty programme	-	-	(98,289)
Recognition of contract liability for fee income earned over time	-	-	(22,706)
	<u>-</u>	<u>-</u>	<u>(120,995)</u>
Adjustment to equity from adoption of IFRS 9 and IFRS 15	<u>(387,459)</u>	<u>72,041</u>	<u>(149,734)</u>
Opening equity components 1 January 2018 – IFRS 9 and IFRS 15	<u>240,812</u>	<u>200,981</u>	<u>285,953</u>

### IFRS 9 'Financial Instruments'

#### Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

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### 34. Adoption of New Accounting Standards (Continued)

#### IFRS 9 'Financial Instruments' (continued)

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	AFS	Amortised Cost	FVOCI	Total
	\$'000	\$'000	\$'000	\$'000
<b>Investment securities –</b>				
Closing balance 31 December 2017				
– IAS 39	17,811,129	-	-	17,811,129
Reclassify debt instruments from AFS to amortised cost (a)	(3,744,874)	3,725,086	-	(19,788)
Reclassify debt instruments from AFS to FVOCI (b)	(14,061,235)	-	14,061,235	-
Reclassify equity instruments from AFS to FVOCI (c)	(5,020)	-	5,020	-
Impairment loss adjustment	-	(92,545)	-	(92,545)
Opening balance 1 January 2018 – IFRS 9	-	3,632,541	14,066,255	17,698,796
	AFS	Amortised Cost	FVOCI	Total
	\$'000	\$'000	\$'000	\$'000
<b>Loans and advances –</b>				
Closing balance 31 Dec 2017				
– IAS 39	-	26,480,577	-	26,480,577
Impairment loss adjustment	-	(413,747)	-	(413,747)
Opening balance 1 January 2018 – IFRS 9	-	26,066,830	-	26,066,830

- (a) Certain debt instruments were reclassified from AFS to amortised cost as the Bank's business model is to hold these investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest. Fair value gains or losses previously recognised in OCI have been reversed. Impairment losses were recognised directly against the asset.
- (b) Certain debt instruments were reclassified from AFS to FVOCI, as the Bank's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest.
- (c) The Bank has elected to irrevocable designate equity investments of \$5,020,000, in a small portfolio of non-trading securities in clearing houses, at FVOCI as permitted under IFRS 9. These securities were previously classified as available-for-sale. The changes in fair value will no longer be reclassified to profit or loss when they are disposed of.

# First Global Bank Limited

## Notes to the Financial Statements

31 December 2018

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### 34. Adoption of New Accounting Standards (Continued)

#### IFRS 9 Financial Instruments (continued)

##### (d) Reclassification from retired categories with no change in measurement

The following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were 'retired' with no changes to their measurement basis:

- (i) Cash and bank balances previously classified as loans and receivables and now classified as measured at amortised cost.
- (ii) Loans and advances previously classified as loans and receivables and now classified as measured at amortised cost.
- (iii) Other financial assets previously classified as loans and receivables and now classified as measured at amortised cost.

Investment securities previously classified as available-for-sale and now classified as measured at FVOCI.

The measurement category and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	Measurement category		Carrying amount		Difference \$'000
	Original (IAS 39)	New (IFRS 9)	Original (IAS 39) \$'000	New (IFRS 9) \$'000	
<b>Financial assets</b>					
<b>On-balance sheet</b>					
Cash and bank balances	Amortised cost	Amortised cost	7,070,570	7,070,570	-
Loans and advances to customers	Amortised cost	Amortised cost	26,480,577	26,066,830	(413,747)
Investment securities	Available for sale	FVOCI	14,066,255	14,066,255	-
	Available for sale	Amortised cost	3,744,874	3,632,541	(112,333)
Guarantees, letters of credit and letters of undertaking	Amortised cost	Amortised cost	515,569	509,756	(5,813)
Other financial assets	Amortised cost	Amortised cost	236,214	236,214	-
<b>Off-balance sheet</b>					
Guarantees, letters of credit and letters of undertaking	Amortised cost	Amortised cost	267,678	264,660	(3,018)
Loan commitments	Amortised cost	Amortised cost	1,444,625	1,418,337	(26,288)

There were no changes to the classification and measurement of financial liabilities.



# First Global Bank Limited

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31 December 2018

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### 34. Adoption of New Accounting Standards (Continued)

IFRS 9 'Financial Instruments' (continued)

Debt securities with a carrying value of \$2,786,000,000 at 31 December 2018 have been reclassified from available-for-sale to amortised cost as part of the transition to IFRS 9. Had these debt securities not been reclassified, fair value gains of \$4,927,000 would have been recognised in other comprehensive income in the 2018 financial year.

#### Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018.

	Loans and advances	Investment securities	Loan commitments and Guarantees
	\$'000	\$'000	\$'000
Opening balance under IAS 39	633,348	-	-
Impairment losses	413,747	92,545	8,831
Closing balance under IFRS 9	<u>1,047,095</u>	<u>92,545</u>	<u>8,831</u>